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SAN DIEGO COUNTY
BLUE RIBBON COMMISSION
TO STUDY PROPOSITION 8 AND 13
ON THE JUNE 6, 1978 BALLOT

Real Prop Tax -- CA
" " " " San Diego Co.
San Diego Co. -- App. & expen.

F I N A L R E P O R T
VOLUME II

REPORTS, ANALYSES AND CORRESPONDENCE
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PREFACE

This volume contains the written reports, analyses and correspondence that was received and reviewed by the Blue Ribbon Commission during the course of its proceedings. It is dividend into three sections. Section A contains the initial study materials provided to the Commissioners by County staff at the start of their proceedings. Section B is additional material that the Commission received during the course of its work. Section C contains responses from taxing agencies in the County to a request to submit comments on Proposition 8 and 13.


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Section A

Initial Study Materials

COUNTY OF SAN DIEGO

BLUE RIBBON COMMISSION
TO STUDY PROPOSITION 13
THE JARVIS/GANN INITIATIVE

INITIAL STUDY MATERIALS

April 6, 1978

PREFACE

The enclosed materials were selected by County staff as representative of the varying materials that are available on the subject of Proposition 13, the Jarvis-Gann Initiative, and Proposition 8/SB1, the Behr Bill. Additional printed materials will be made available by County Staff to the Blue Ribbon Commission upon request of the members.

By way of these materials, neither County staff, nor the members of the Board of Supervisors, are advocating either a yes vote or a no vote on either ballot measure.

CONTENTS

I. California Taxpayers' Association Analysis of Prop. 13 vs. Prop. 8/SB1

II. Position Paper for Jarvis-Gann Initiative prepared by People's Advocate, Inc.

III. Many Years of Tax Research in 30 Minutes of Reading prepared by United Organizations of Taxpayers

IV. Preliminary Analysis of Jarvis/Gann Initiative prepared by County of San Diego Office of Management and Budget

V. Impact on Local Governments in San Diego County of Proposition 13, the Jarvis-Gann Initiative prepared by County of San Diego Office of Management and Budget

VI. Facts About Proposition 13, the Jarvis/Gann Initiative prepared by staff of the Assembly Revenue and Taxation Committee

VII. Special Report on Senate Bill 1 as Enacted prepared by County of San Diego Office of Management and Budget

Prop. 13 vs. Prop. 8/SB 1 — An analysis

At the June 6 statewide election, California voters presumably will choose between two approaches to property tax relief — Proposition 8 and Proposition 13. The issue before the voters and the way in which they resolve it makes this one of the most important elections in recent California history.

Proposition 8, through Senate Bill 1, offers homeowners immediate property tax cuts of 30% and more than doubles current levels of relief for renters.

It also contains revenue limits that will provide ongoing relief to all taxpayers in the magnitude of $1 billion annually by the mid-1980's. The revenue limits in Proposition 8 require a larger reduction in tax rates for owner-occupied homes when the increase in home assessments is greater than for other property.

While local governments would sustain a significant cut in property tax revenues, they could, with tighter budgeting, continue to function and continue to provide essential services. The complete implementation of Proposition 8 is specified in its companion statute, SB 1, signed by Governor Brown on March 3.

Proposition 13 gives all property taxpayers — homeowners, business, and agriculture — an approximate 50% cut in property taxes, and would hold assessments to 2% growth per year. Renters are offered no direct relief, but would probably receive some relief as a function of rental market competition.

Proposition 13, the so-called Jarvis/Gann proposal, is a product of the initiative process. The proposed constitutional amendment received about twice the number of petition signatures necessary to qualify it for the statewide ballot.

Popular support for the proposal has been generated by the enormous increases in homeowner property taxes in recent years and the continued inability of the Legislature to enact a property tax relief program despite a growing General Fund surplus. The prevailing public attitude on the property tax issue is, according to various public opinion polls, a mixture of frustration, anger, and lack of confidence in the possibility or viability of a legislative solution.

Regardless of Proposition 13's fate at the polls, it has already had an important impact; it undoubtedly spurred the Legislature to act and it undoubtedly influenced the design of the final legislative product which returns the General Fund surplus over the next four years to the taxpayers who, by and large, contributed to it in the first place.

Beyond its basic provisions (discussed below), Proposition 13 does not present a plan for government program cuts or for replacement revenues which would balance out the $7 billion property tax cut it would require. Despite this (or perhaps because of this) the proposition has a basic appeal that may carry it to success on June 6.

Prop. 8/SB 1: basic description

1. Local Revenue Limits. The most important, and perhaps least-noticed, feature of SB 1 is the element of property tax relief it provides through a local government property tax revenue limit. While schools are already subject to revenue limits, cities, counties and special districts are not. SB 1 closes that gap.

The revenue limit which is to be used is the Gross National Product (GNP) Deflator, a yardstick which measures the cost of goods and services purchased by state and local governments. This index has been going up in recent years by about 6.25% annually (substantially below the average annual increase for local government expenditures in California). In addition, local taxing agencies would be allowed increases in their tax base resulting from new construction or substantial improvements to existing property. Since this would increase property tax revenues by about another 2%, the effective limit would be approximately 8.25% per year. This limitation is expected to provide ongoing relief for all taxpayers in the magnitude of $1 billion by 1983-84 (increases in property taxes on single-family homes have been averaging 14% per year; business property tax levies have increased at 9%-10% per year).

Proposition 8 would amend the constitution to permit the enactment of the new revenue limit contained in SB 1. The proposition does just two things: (1) It authorizes a *split rate* to permit a lower tax rate for owner-occupied dwellings than for all other property, and (2) it expressly protects commercial taxpayers from a shift that would finance homeowner relief from commercial property tax dollars.

Under the SB 1 revenue limits, the first step in setting the local agency tax rate would be to establish the rate for single-family owner-occupied residential property. In setting the rate, only property common to current and prior-year home tax rolls are used, and the rate would be limited to raise no more property tax revenue than is equal to the rate of increase in the GNP Deflator. At this point, an important new step occurs: *The homeowner rate would be set on the basis of homeowners' value only.* This would permit a large reduction in homeowner tax rates when the rate of increase in home assessments is greater than valuation growth in "all other" property. Under these conditions, the homeowners' rate is driven down more than it would be if the tax base included all property. This rate is also applied to new construction on the homeowner roll.

The rate for all other property (business, industry, agriculture, etc.) would then be set against the *same* revenue limit, treating properties common to prior and current-year rolls — and new construction — in the same manner. The tax base used in setting this rate is the *total* valuation of the taxing jurisdiction, *including* owner-occupied dwellings — just as at present. (See Table I, on page 2, for an illustration of the rate-setting process under SB 1.)

In the event that valuation growth for "all other" property were to drive the rate for "all other" *below* the homeowner rate, SB 1 provides that the homeowner rate must be reduced to a rate equal to that for "all other" property. Therefore, homeowners would also benefit from large business-valuation increases.

If a taxing agency wished to reduce the homeowner tax rate, it would be able to do so, provided that the businesss rate were reduced in the *same ratio* as the homeowner rate. The maximum tax rate could be exceeded by a vote of the people, but it would have to be increased for homeowners and business by *equal cents per $100* of assessed value. Business properties are thereby protected against shift of the tax burden as a result of local action.

(Continued on Page 3)

TABLE 1: COMPUTATION OF SB 1 SPLIT RATES FOR A HYPOTHETICAL TAXING JURISDICTION

The following example of how the split rate works shows that, assuming (1) a base-year tax rate of $3.00, (2) a growth in business valuation of 15%, (3) a growth in home valuation of 20%, and (4) a growth in the revenue limit of 6.25%, the 1978-79 business rate would be reduced to $2.77 and the 1978-79 home rate would be reduced to $2.65.

ASSUMPTIONS:

1977-78 (Base Year)

County Tax Rate: $3.00

Owner-occupied Residential Assessed Value	$10,000,000
All Other Property Assessed Value	20,000,000
Total 1977-78 Assessed Value	$30,000,000
Base Year Revenue —	
Owner-occupied Residential Property	$ 300,000
All Other Property	600,000
	$ 900,000

1978-79 (Budget Year)

GNP Deflator Growth: 6.25%

New Owner-occupied Residential Assessed Value	$12,000,000 (20% growth)
New Construction, Owner-occupied Residential	200,000 (2% growth)
All Other Property Assessed Value	23,000,000 (15% growth)
New Construction, All Other Property	400,000 (2% growth)
Total 1978-79 Assessed Value	$35,600,000

FOUR BASIC STEPS:

1. To Set Owner-occupied Residential Rate:

a. 1977-78 home property tax revenue X 106.25 (GNP Deflator) = $ 318,750

b. 1978-79 assessed value base, home property, excluding new construction 12,000,000

c. Compute 1978-79 rate (a ÷ b) 2.65

2. To Set All Other Property Tax Rate:

a. 1977-78 *total* property tax revenue X 106.25 (GNP Deflator) = $ 956,250

b. 1978-79 assessed value base, total property, excluding new construction = 35,000,000

c. Compute tentative 1978-79 all other property rate (a ÷ b) = 2.73

d. Compute revenue from all other property:

$23,000,000 (all other assessed value excluding new construction)
X 2.73
$ 627,900

3. Test Total Property Tax Revenue Increase to Determine if Equal to Growth in GNP Deflator

Home Revenue	$318,750
All Other Revenue	627,900
	$946,650 (5.18%)
Revenue Guarantee	$956,250
Shortage	$ - 9,600

4. First Go to "All Other" Property to Raise Shortage

(because "all other" received benefit of "home" valuation in setting its rate). Calculation:

$9,600 ÷ $23,000,000 = .04 cents

Final rate, homes: $2.65

Final rate, all other: $2.77

Property tax revenue, "all other" property (total "all other" assessed value, *including* new construction):

$2.77 X $23,400,000 = $648,100

Property tax revenue, "home" property (total "home" assessed value, *including* new construction):

$2.65 X $12,200,000 = $323,300

SAVINGS:

SB 1 Property Tax Revenue Reduction:
(assumes $3.00 1978-79 rate, without SB 1)

$35,600,000 X $3.00 = $1,068,000

Maximum Revenue under SB 1: 971,480

Reduction $ 96,520

"All Other" Savings ($702,000 - $648,180) = $53,820
"Home" Savings ($366,000 - $323,300) = $42,700

Note: The above is an example of how the split rate works under a given set of assumptions chosen for purposes of simplicity only. Revenue and Taxation Code Section 2261 provides for a number of alternative calculations when other conditions prevail. If, for example, the maximum revenue limit for the hypothetical taxing jurisdiction had not been met by increasing the "all other" rate by .04 cents, 2261 provides that the rate for "homes" could then be increased until it is met. It should also be noted that while the jurisdiction did not have to tax at the SB 1 limit, doing so offers more valid comparison with existing law.

In any calculation of taxing-district revenues under SB 1 there are two general tests which must be met. They are:

(1) For owner-occupied, single-family residential property, property taxes may increase no more than the percentage increase in the GNP Deflator index, or by application of the tax rate imposed on "all other" property, *whichever* is lower.

(2) For all other property, property taxes may increase no more than the percentage increase in the GNP Deflator.

In both cases, the tax rates derived from these limits are applied to annual new construction, which produces revenue beyond the GNP Deflator index.

(Continued from Page 1)

The amounts of property tax relief provided to all taxpayers as a result of the SB 1 revenue limits, estimated over the next five years by the Assembly Revenue and Taxation Committee, are as follows:

TABLE II: PROPERTY TAX RELIEF TO HOMEOWNERS AND BUSINESS FROM SB 1 REVENUE LIMITS
($ Millions)

	1978-79	1979-80	1980-81	1981-82	1982-83
Homeowners	$104	$203	$307	$426	$545
Business	0	57	141	257	422
Total	$104	$260	$448	$802	$967

Source: Assembly Revenue and Taxation Committee

2. Direct Homeowner Relief. In addition to the relief provided homeowners under the dual revenue limit, the new homeowner tax rate would no longer include any amounts for adult welfare (SSI/SSP), Medi-Cal, and family assistance (AFDC) costs. Since SB 1 guarantees 30% homeowner tax relief, if the so-called "welfare buyout" does not achieve the 30% level *further* tax rate reductions would be made to ensure it. This feature is also authorized by Proposition 8. (For non-homeowner taxpayers the bill would institute a hold-harmless provision requiring counties to hold their contributions for those welfare costs to the *lesser* of the annual change in the GNP deflator or the annual change in assessed value.) The homeowner relief described above is in *addition* to the existing homeowner exemption. New *direct* homeowner relief provided during the first four years of SB 1 would be $5.67 billion. This is in addition to the *estimated* $1.6 billion in relief which would be provided to homeowners over the next five years as a result of the new revenue limits.

3. Renter Relief. The current renters' income tax credit of $37 would be increased to $75 effective with the 1978 income year, and the prohibition against welfare receipient entitlement to the credit would be removed. The four-year cost of renter relief provided for under the bill is estimated at about $700 million.

4. Senior Citizen Relief. Homeowners and renters over 62 now receive other property tax relief in addition to the homeowners' exemption. Assistance is given on (1) a percentage of the property taxes paid by senior citizens with annual incomes of less than $12,000 and (2) on the first $8,500 of assessed value. Under SB 1, senior citizen homeowners with incomes of up to $13,000 would receive additional assistance. Assessed valuation limits would be removed entirely and replaced with a cap on maximum relief of $1,500. Unmarried surviving spouses under age 62 would continue to receive assistance if their spouse had been receiving benefits before death.

Renters age 62 and over, with incomes below $5,000, now receive tax assistance based on a statutory determination that annual rent payments include $220 in property tax costs. Senate Bill 1 would provide renter property tax relief for senior citizens with incomes of up to $13,000, while the property tax component of rent would be statutorily stipulated at $250. Unmarried surviving spouses would be eligible to continue to receive renter benefits, even if below age 62.

5. State Revenue Limit. Senate Bill 1 provides an *implicit* state government revenue limit which may prove more effective than the explicit limit that is tied to the growth in personal income. The implicit limit is a function of the following simple fact: The direct property tax relief provided by SB 1 would virtually exhaust projected state surplus revenues over the next five years, requiring the Legislature to cut projected spending by a compounded $2.4 billion over the same period. Past state spending, beyond inflationary increases, has generally increased by $200 million annually for new programs; SB 1 would require new state spending to be cut back to a maximum of $70 million per year.

Proposition 13: basic description

Proposition 13 has four basic objectives: (1) a property tax revenue limit; (2) an assessment freeze; (3) a new legislative two-thirds vote requirement for state tax increases; and (4) a new two-thirds vote requirement for increases in local taxes. Proposition 13 would take effect on July 1, 1978, with the exception of the two-thirds vote requirement for raising state taxes, which would be effective on passage.

1. The Limit. Beginning with the 1978-79 fiscal year, Proposition 13 would limit the amount of property taxes that could be collected from an owner of county assessed *real* property to 1% of the property's full cash value. Proposition 13 does not mention county assessed personal property (such as business inventories), or state assessed property (such as public utilities), but the Office of the Legislative Counsel advises that the 1% limit would apply to *all* types of taxable property.

Proposition 13 does not permit local voters to raise the 1% limit; that would require a new constitutional amendment. The limit could be exceeded only to repay bonded debt approved by the voters *before* July 1, 1978. The limit could not be exceeded to repay bonded debt approved by the voters on or after July 1, 1978.

The reduced property tax revenues which could be raised under the 1% limit would be collected by the counties and then distributed "according to law to the districts within the counties."

At present there is no state law which would provide for the distribution of these revenues. Therefore it is impossible to determine how the substantial reductions in property tax revenues would be distributed among cities, counties, schools and special districts.

Proposition 13 refers only to the distribution of property tax revenues to "districts within the counties." It does not say whether cities and counties (which technically are not "districts") could share in these revenues. However, the legislative counsel advises that unless the ballot arguments by the proponents of Proposition 13 make it clear that counties and cities are *not* to receive property taxes, they could continue to receive some portion of these revenues.

2. The Freeze. Initially, Proposition 13 would roll back the current assessed values of real property to the values shown on the 1975-76 assessment roll. County assessors could adjust the values shown on the 1975-76 assessment roll if these values were lower than the estimated market value as of March 1, 1975. The adjusted values could then be increased by no more than 2% per year as long as the same taxpayer continued to own the property. For property which changes ownership, is sold or is newly constructed after March 1, 1975, the assessed value would be set at the appraised (or market) value at the time of transfer, sale or

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construction. As a result, two identical properties with the same market value could have different assessed values for tax purposes if one of them has been sold since March 1, 1975.

Because of the rollback of assessed values to 1975-76, the limit actually would begin at *less* than 1% – perhaps at 7/10 of 1%. Because of the limitation on the growth of assessed values at 2% per year, the limitations would become tighter each year, becoming 2/10 or 3/10 of 1% of actual market value by the early 1980s.

3. The Legislative 2/3 Vote. Currently, state taxes can be increased by a majority vote of both houses of the Legislature and approval by the governor. Proposition 13 would require a two-thirds vote by the Legislature to increase state taxes and would prohibit the Legislature from enacting any new taxes based on the value or sale of real property.

4. The Local 2/3 Vote for "Special" Taxes. Proposition 13 would authorize cities, counties, special districts and school districts to impose unspecified "special" taxes only if they receive approval by two-thirds of the "qualified electors." Based on the California Elections Code, a "qualified elector" appears to be an American citizen 18 years of age who has resided in the voting district 29 days.

Any "special" taxes so authorized could not be based on the value or sale of real property. The legislative counsel advises that provisions in the existing constitution would prohibit general law cities, counties, school districts and special districts from imposing new "special" taxes without specific approval by the Legislature. Such restrictions would limit the ability of these local governments, even with local voter approval, to replace property tax losses resulting from the adoption of Proposition 13. However, increases in rates of existing non-property taxes which local governments are now authorized to levy would not appear to be prohibited under Proposition 13.

TABLE III: SUMMARY OF FINANCIAL IMPACT, PROPOSITION 13

Local Government	1978-79 (in millions)
Costs	
Property Tax Revenues	$ -7,031
Federal Revenue Sharing	- 45
Savings	
Medi-Cal, SSI/SSP Contributions	+ 65
Net Effect	$ -7,011
State Government	
Costs	
Federal Revenue Sharing	$ - 22
School "Recapture" Revenue; STRS Costs	- 55
Medi-Cal, SSI/SSP Contributions	- 65
Savings	
Homeowners' Exemption Payments	+400
Business Inventory and Miscellaneous Subventions for Property Losses	+235
Senior Citizens Property Tax Assistance Renters Assistance, and Deferral Reimbursements	+65
Personal Income/Bank and Corporation Tax Revenues	+295
Net Effect	$+ 853

Source: Assembly Revenue and Taxation Committee

PROPOSITION 13 IMPACT ON TAXPAYERS

1. Homeowners. Proposition 13 would cause homeowner property taxes to drop substantially. Although the amounts of reduction would vary, a house assessed at $52,500 in 1978-79 could receive a property tax reduction of $745 (Assembly Revenue and Taxation Committee estimate, based on a rollback to a 1975 value of $45,000 and an average statewide tax rate of $10.73). Thereafter, property tax increases on that property could not exceed 2% per year, unless the home is sold, or ownership changes.

However, a significant portion of this reduction would automatically go for higher state and federal income taxes due to loss of property tax deductibility. For example, at an adjusted gross income of $25,000 (family of four, with a property tax reduction of $745), federal income tax would increase approximately $210, and state income tax would increase approximately $45. At this point the *net* tax savings as a result of Proposition 13 would be $490.

There could also be state and local government responses to Proposition 13 which could reduce – or totally offset – the savings in homeowner property taxes. The net pocketbook effect of Proposition 13 on homeowners in general is impossible to estimate because it depends on (1) how much current property tax revenue would need to be replaced after services were cut, and (2) the availability and appropriateness of already authorized non-property taxes which might be increased by state and local governments. Net effects would vary geographically and would also depend on the size of present household property tax burden. Despite the variables it should be noted that family budgets could be subject, under Proposition 13, to:

- New or higher user fees and charges for water, sewage, garbage, libraries, recreation, and other public services in areas where these services are now partially or totally subsidized by property taxes.

- Increases in insurance premiums in areas where budget cutbacks are necessary in fire and police protection, and for water standby charges and street lighting.

- Higher family transportation costs due to increases in motor vehicle in-lieu taxes, fuel taxes, and transit system fares, in addition to the direct family costs of replacing the present school bus system.

- Higher household energy and telephone service costs through new or higher utility rates which would come as a result of utility company pass-ons of any higher taxes levied on these companies by the Legislature and approved by the Public Utilities Commission.

- Higher costs of consumer goods and services due to the pass-on of any new business taxes enacted by the Legislature.

2. Renters. Renters make up 45% of California households. Property taxes represent 17% to 23% of rent payments, depending on local rental markets. Although residential rental properties
(Continued)

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are included under the limit and the freeze, and while it seems likely that rental market forces will generate some rent reductions as a result of lower property taxes, there is no requirement for rent reductions. Meanwhile, renters would be subject to any general tax increases or pass-ons of higher taxes, as reflected by the costs of consumer goods and services.

3. Commercial, Industrial and Agricultural Properties. Real-income properties would receive a sharp property tax rollback, the amount differing by current local tax rates. Income-producing properties account for about two-thirds of the state's assessed valuation, so they would receive the major portion of the direct benefit from the tax rollback. The *net* effect upon business, after replacement taxes are levied and/or services are cut, is not predictable. (The total increase in individual and business federal income taxes resulting from the loss of property tax deductibility has been estimated at $1.9 billion.)

As one example of the unpredictability of Proposition 13, the California Builders' Council, a representative of the California construction industry, has commented:

"Of direct concern to builders and developers will be these results from the initiative:

•Resistance among potential new home purchasers to leave an existing low-taxed home to buy a new home which is relatively more heavily taxed.

•Bonds financed by property taxes could no longer be used to finance construction of public facilities such as water treatment plants, schools, off-site improvements, fire stations, etc.

•The potential cutoff of any property tax revenues to cities and counties will cause them to impose a wider variety of fees and charges.

•No reduction of the assessed value of real property caught in a moratorium or declining value market."

Since the current property tax crisis has primarily involved the owner-occupied, single-family residence, it seems unlikely that the Legislature and local government would initially look to homes for any replacement revenues needed under Proposition 13.

The most likely prospect is for the Legislature to make Proposition 13 apply only to homeowners. This could be done by adopting a constitutional amendment to be placed on the November, 1978, ballot which would read very much like Proposition 13, but which would apply only to homeowners (or perhaps only to residential property). The replacement revenue problem — at current spending levels — would be cut from $7 billion to about $2.7 billion (if applied only to single-family, owner-occupied residences). Several split-assessment roll proposals such as this have been offered in recent years, and have received bi-partisan authorship and support. In fact, a measure to extend Proposition 13 to homeowners only has been introduced in SCA 54 (Briggs). If Proposition 13 should pass in June, a proposal similar to SCA 54 could pass in November. Thus, the "relief" to business and agriculture would disappear.

The ability of industries or individual firms to retain the property tax savings or to pass on an alternative tax would depend upon the market structure for each product, including the amount of out-of-state competition. In general, reducing the property tax would lower the current disincentive to invest in real properties in California.

PROPOSITION 13 IMPACT ON LOCAL GOVERNMENTS, SCHOOLS

The share of total income that comes from property tax revenues is, of course, higher for some types of local governments and jurisdictions than it is for others.

- Schools, on a statewide basis, receive about 50% of their income from the property tax, but individual districts range from 20% to nearly 90% in their property tax dependence.

- Counties, on a statewide basis, receive about 35% of their income from the property tax, but individual counties range from 24% to 39% in their reliance on the property tax.

- Cities, on a statewide basis, receive 23% of their income from the property tax, but individual cities range from zero to 60% in their reliance on the property tax.

- Special districts range from zero to 100% in property tax reliance. For example, fire districts receive about 90% of their income from the property tax.

Schools. Half of all property taxes go for public schools, and half of all school revenues come from the property tax. The Assembly Education Committee has estimated that Proposition 13 would effect a cut in school property taxes of $3.691 billion. This represents about 31% of all projected school revenues (K-14, $11.785 billion) in 1978-79.

Eighty-five percent of all school general fund expenditures go for certificated and classified salaries and employee benefits. Since spending cuts would strive to protect the instructional program, priorities for cuts would probably start with the staffing of support services such as counseling, food services, transportation, administration, and maintenance. After this, cuts could be made in elective course offerings, such as music, art, drama, physical education, and in extra-curricular activities, such as marching bands, football, and other sports. Community services could also be cut. Pupil-teacher ratios might have to be adjusted for most districts' and class sizes could be significantly increased as teachers were laid off.

On a school district by school district basis, there would be a variable property tax revenue impact under Proposition 13. For analysis purposes, it seems logical to assume that revenues from the 1% property tax levy would be pro-rated according to rates levied in the prior (base) year. Existing composite tax rates would be reduced from present levels to $4.00 (or an equivalent percentage of the remaining tax) for all purposes. While this assumption represents perhaps the simplest approach, serious difficulties occur in working the allocations through intra-county and intra-district composite rates, which vary widely.

Composite rates have a considerable range; in Los Angeles County they go from about $7.00 to over $21.00. If a school district with a $7.00 rate in a $21.00 tax code area is to carry the same share (33%) of the composite rate under the $4.00 limit, its new maximum rate would be $1.33. However, a district with a $3.50 rate and a 50% share in a $7.00 tax code area would be allocated $2.00 under a $4.00 rate limit. The district with the $7.00 rate would sustain a 81% cut while the district that had the $3.50 rate would receive a 43% cut.

The problems of allocation of rate and apportionment of revenues under Proposition 13 apply not just to school districts, but to all local taxing jurisdictions. For example:

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●If allocation of the limited property taxes is based on proportional shares of composite rates in a given base year, how are future changes in district needs to be accommodated? Should a declining enrollment (or declining population) district continue to receive the same relative share of property tax revenue while a growth district faces increasing revenue problems?

●If, for administrative simplicity, the 1% tax is levied countywide – and the concept of district tax base is abandoned – apportionment of revenues could simply be based on the proportional share of the property tax levy in the base year. Under this approach, the problem of reflecting changing needs would still occur. In addition, districts with a growing property tax base (which may or may not be associated with growing revenue needs) would export property tax to other taxpayers and taxing jurisdictions within a county. This would violate the benefit principle of taxation.

●Statutory and constitutional questions are raised by the revenue distribution provision of Proposition 13. Under present law, counties can raise revenues only for "county purposes." Is allocation to another agency a county purpose? Is such an allocation a "gift of public funds" under Article XVI, Section 6 of the Constitution?

With regard to state replacement of lost property tax revenues, there is another constitutional question of importance to schools and all local governments. Article XVI, Section 8 states:

"From all state revenues there shall first be set apart the monies to be applied by the state for support of the public school system and public institutions of higher education." This constitutionally mandated priority for distribution of scarce replacement revenues could favor schools at the expense of counties, cities, and special districts.

While payments to continue the retirement of voter-approved debt are outside of the limit, bond specialists have raised a question as to School Building Corporation Bonds. These bonds are not, strictly speaking, voter-approved debt. This method of debt-financing involves the formation of a "corporation" and the call for an override election which, by a simple majority, will authorize a district to pay "rent"to the school building corporation which constructs the needed facilities. The rent serves as revenue for school building bond redemption. Although the rent payment is voter-authorized, it is not, strictly speaking, a debt, and there is no clause in Proposition 13 permitting a voter-approved override to be outside the limit. There is a strong possibility, then, that redemption of these bonds will have to be accommodated within the limit, thereby further reducing property tax revenues for operational uses.

Local Governments. The present reliance on the property tax and the eventual formula for distribution of increasingly limited property tax revenues are clearly the two most crucial factors to the continued functioning of local governments under Proposition 13.

For the 12 small California cities which do not levy a property tax, Proposition 13 would present no direct problem. If, however, some of the local services provided to residents of these cities come from special districts, some of these cities could suddenly find themselves involved with new municipal service responsibilities. And some of the wealthiest bedroom communities in the state, such as Piedmont, Hidden Hills, Rancho Palos Verdes, Belvedere, Ross, Larkspur, San Anselmo, and Hillsborough, would suddenly find it very difficult or not possible at all to make ends meet, since their reliance on the property tax ranges from 38% to 67% of total revenues. For the cities of Los Angeles, Sacramento, and others which spend more for police and fire costs than is raised by the property tax, Proposition 13 can be expected to cut into these basic services.

Reallocations of existing property tax revenues could be undertaken to protect emergency services. The so-called "amenities" of public spending – libraries, parks, and recreation – could be jettisoned or severely curtailed. Some – or all – of the property taxes spent for the operation, maintenance, and construction of city streets ($331 million in 1975-76), as well as the property taxes which subsidize public transit ($258 million in 1975-76), could be diverted to emergency services. Shortfalls in street and transit programs could then be made up by increases in motor vehicle in-lieu and fuel taxes and transit fares.

With respect to counties, the most logical immediate response to Proposition 13 would be for the state to assume *all* health and welfare costs. The 1977-78 property tax requirements for the three major cost programs are:

TABLE IV: MAJOR PROPERTY TAX COSTS OF WELFARE

Program	1977-78 Property Tax Requirement (millions)
1. AFDC	$ 550.0
2. Medi-Cal	411.6
3. SSI/SSP (adult aid)	165.0
Total	$1,126.6 billion

Source: County Supervisors Association of California

Since the total county property tax loss under Proposition 13 would be about $2.2 billion, the removal of all health and welfare costs from the property tax would still leave over $1 billion to be cut from the county property tax. For some counties, this would require a cut in basic public protection services.

Special Districts. According to a state controller's 1975-76 report, there are 3,378 non-enterprise, single-purpose special districts in California which perform a variety of functions. Total expenditures for these districts was about $708 million. Of total revenues of $734 million, $332 million, or about 45%, came from the property tax. Here are examples of some of the types of districts involved:

TABLE V: SPECIAL DISTRICT SAMPLE, PROPERTY TAX RELIANCE

Number of Districts	Type	Property Tax As % of Revenues
37	Ambulance Service	54%
597	Fire Protection	79
87	Flood Control and Water Conservation	74
120	Land Reclamation and Levee Maintenance	36
34	Library Service	39
901	Lighting and Lighting Maintenance	88
261	Recreation and Park	64

Source: state controller

(Continued)

(Continued)

Since special districts vary so widely in their revenue structure, generalizations on the impact of Proposition 13 on special districts cannot be stated with any descriptive accuracy. About all that can be said is that special districts that rely most heavily on the property tax are particularly vulnerable under Proposition 13. A study of the Proposition 13 impact on a specific fire district in suburban Sacramento showed that the district would sustain a 70% cut in property tax levy (from 1977-78 to 1978-79). This kind of cut appears to be fairly typical of what fire districts would experience under Proposition 13. Other single-purpose special districts, especially those able to charge user fees for services, might, through a combination of fee increases and service cutbacks, be better able to survive as a functioning unit of government.

PROPOSITION 13: CONFLICTS WITH LEGAL OBLIGATIONS, RESPONSIBILITIES

Proposition 13 would affect, or come into conflict with, many legal obligations and responsibilities common to all local governments and school districts. Examples of these impacts are:

● **Future Bonding Capability.** The measure would effectively prohibit any *new* property taxes for general obligation bonds, by any vote whatever. Future general obligation bonds would have to be financed from within a steadily declining valuation base and be authorized by two-thirds of the "qualified electors." This would present practical, if not legal, prohibitions against future general obligation bonds, a conclusion which is emphatically underscored by municipal bond analyst George Friedlander, of Smith, Barney, Harris, Upham, and Co. He also notes that the relative quality of existing voted bonded debt could increase because of the special status they possess (i.e. being outside the limit).

● **Status of Existing Non-voted Debt.** It is difficult, according to Friedlander, to assess the impact of Proposition 13 on lease-purchase bonds. Such bond issues are secured by rental payments from a municipal government (the lesee) to the issuing authority (the lessor). Lease-purchases have been used to finance government buildings, convention and sports facilities, hospitals, parking structures, etc. Since lease-purchase bonds are not voter-approved, they fall outside the limit. There is more than $1.2 billion in outstanding lease-purchase debt in California. Again, according to Friedlander, "the fate of...(these) issues...under Jarvis-Gann depends...on the non-ad valorem tax revenues available to the lessee."

● **Impact on Existing Redevelopment Debt Based on Tax Increment Financing.** Tax-increment financing of redevelopment projects is a device that has been extensively used in California. In redevelopment, land which is under-utilized is developed for "higher and better use," causing the total value of the redeveloped area to increase. As value increases, the assessor reassesses property upward, causing tax yield to increase. Under tax-increment financing, the taxes on the increased value which are accrued since the beginning of a project are allowed to be used by the redevelopment agency to pay for improvements needed to redevelop land, including demolition, grading, drainage, streets, and various other improvements. After the projects are paid for, the incremental value reverts back to the original taxing jurisdictions. There are a variety of devices used to secure redevelopment capital-improvement debt. The most frequently used devise is the tax allocation bond, a revenue bond. About $900 million of the total tax-increment debt of the $1.5 billion is in tax allocation bonds in California.

Since funds to pay existing redevelopment agency debt are not excluded from either the limit or the freeze under Proposition 13, much of this debt could go into default. Some of the problems for redevelopment projects would appear to be:

1. The 2% per year limit on assessed valuation growth, a feature critical to redevelopment projects. With no growth in tax base beyond an annual 2% (plus new construction), the revenues to pay off existing debt might not be forthcoming.

2. County spending priorities. Would existing redevelopment agency debt be recognized as a "prior claim" on limited property tax revenues in the distribution process?

3. Legal governmental status. Would redevelopment agencies even qualify as entities eligible for receipt of property tax funds?

4. Future redevelopment under tax-increment financing. The financing method would appear to be precluded unless the value of "new construction," assessed at "full cash value," were adequate to carry redevelopment costs past the first year on the assessment roll. Thereafter, the allowed assessed valuation growth would be held to 2% per year. Could developers be expected to come up with a larger share of off-site development costs?

5. Assessment rollback. Values would be rolled back to 1975-76 under Proposition 13. This would seem to place any tax-increment-financed redevelopment project that is dependent on growth above 1975-76 values in immediate peril.

Mandated Programs. Many responsibilities performed by local governments and schools are mandated by state law. In some cases, the level of service is also mandated. Which mandates will be carried out under a property tax cut?

● **Contracts.** Existing contracts must be honored. Broken contracts would subject the local agency to lawsuits to recover the outstanding obligation and, perhaps, to secure additional damages. However, paying off contract commitments on a timely basis would require cutbacks in other services where greater budgetary flexibility exists.

● **Emergencies.** It is unclear what would happen if there were a major flood, snowstorm, fire, earthquake or riot, and additional city/county expenditures were required. Unlike previous tax limitation proposals, this initiative does not provide for the ability of local agencies to levy taxes *without* voter approval in order to cope with public emergencies.

● **Uncontrolled Costs.** It is also unclear what would happen if a small county were to sustain extraordinary expenses, such as court costs associated with a lengthy trial, search and rescue costs, etc. What happens when Congress increases employer contributions to OASDI is also subject to speculation, as is what would happen if a city were to be mandated to replace its water treatment facilities.

● **Matching Funds.** Many local programs involve a sharing of costs by the state or federal government on a matching-fund basis. Some programs require "maintenance of (tax) effort" in order to continue to qualify for aid. For example, one such program, Public Law 81-874, is intended to provide federal assistance to local school districts which are "impacted" by pupils from nearby federal installations. This federal assistance is a form of property tax relief. The reduction in the "maintenance of effort" factor which would occur under Proposition 13 would result in a loss of about $20 million in federal impact aid in California.

(Continued)

QUESTIONS REQUIRING LEGISLATIVE ANSWERS

The full meaning of all of Proposition 13's provisions cannot be known until the Legislature acts to statutorily implement it sometime after its supposed enactment. The following would appear to be some of the questions which taxpayers and local governments would want to address to the Legislature, should Proposition 13 pass:

1. Assessment Inequities? Is there any way to avoid, through statute, the potential for payment of significantly different property tax bills for identical local services by properties with identical market values? This appears to be required by a Proposition 13 provision calling for reappraisal of property upon resale.

2. Higher Taxes on Change in Ownership? What constitutes a "change in ownership"? Would reassessment of a corporate property occur upon a reorganization, a change in name, a consolidation, a divestiture? Would reassessment occur on disposition of property in dissolution of marriages or when property is placed in joint tenancy or passed on to heirs?

3. Transfer Tax Disallowed? Since 1968 California cities and counties have imposed a tax of 55-cents-per-$500-of-value on the total sales price of real properties. Would it remain in effect?

4. Overassessments Possible? The underlying assumption in going to 1975-76 assessments is that they will be lower, and this is generally true. However, many properties have *declined* in value since 1975-76 – particularly in core city areas. What happens to properties which have declined in value as a result of fire, flood, or other calamity? What happens to the thousands of properties which have had assessments reduced below 1975-76 values as a result of the granting of assessment appeals?

5. Greater Taxes on Timber? A return to 1975-76 values would mean that timberland (real property) would include the value of timber standing in 1975-76 (whether or not the timber is still standing). In addition, since timber was recently placed on a yield tax at point of harvest, a return to ad valorem taxation for timber could result in double taxation, unless the yield tax were repealed.

6. What is "New Construction"? Although reassessment of "newly constructed" property is required, it is not defined. Does it apply to improvements or additions to existing property? Does it apply to a multi-million dollar addition to an existing plant?

7. Are State-assessed Properties Unfrozen? Section 2 of Proposition 13 refers only to "county assessor's valuation," which would seem to exclude real property valued by the state Board of Equalization (utilities and common carriers). Are state-assessed properties excluded from the "rollback" of values to 1975-76?

8. Distribution System? How would the limited property tax revenue be distributed? On the basis of each district's share of composite rate for each tax code area? Would the distribution of property tax revenues be "frozen" at each district's relative share of property tax levy in some base year? If so, how would changing revenue needs be accommodated? How would any property tax revenue be allocated to new districts?

9. Cities, Counties Excluded? Does distribution to "districts" exclude cities and counties from receiving property tax revenues?

10. Uniform Tax Rates? Must a district apply uniform tax rates throughout the district, or can it alter its rates from tax code area to tax code area to "use up" the 1% limit? If a district may alter its rates by tax code area, then people could be charged differing amounts for similar services.

Finally, and perhaps the most important question of all: What would happen to local control of local government under Proposition 13? Is there any way to prevent greater state financing from becoming greater state control?

Text of Proposition 13

That Article XIII A is added to the Constitution to read:

Section 1.

[a] The maximum amount of any ad valorem tax on real property shall not exceed One percent [1%] of the full cash value of such property. The one percent [1%] tax to be collected by the counties and apportioned according to law to the districts within the counties.

[b] The limitation provided for in subdivision [a] shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

Section 2.

[a] The full cash value means the County Assessors valuation of real property as shown on the 1975-76 tax bill under "full cash value", or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occured after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.

[b] The Fair market value base may reflect from year to year the inflationary rate not to exceed two percent [2%] for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

Section 3.

From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

Section 4.

Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district.

Section 5.

This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall become effective upon the passage of this article.

Section 6.

If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.

Text of Proposition 8

Sec. 9.5. The Legislature may provide for the taxation of owner-occupied dwellings, as defined by the Legislature, or any fraction of the value thereof, at a rate lower than that levied on other property. In no event may the tax rate levied on other property be increased as a result of lowering the tax rate levied on owner-occupied dwellings.

Sources: *Material for this article was drawn and adapted in part from analyses and other releases made available by the Assembly Committees on Revenue and Taxation, Education, and Transportation; the Senate Local Government Committee, the legislative analyst, and the state Department of Finance.*

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PEOPLE'S ADVOCATE POSITION PAPER

FOR PROPOSITION 13

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INTRODUCTION

If you are a resident of the State of California you are a part of, and a participant in, the government of this State, by virtue of the taxes you pay and the vote you cast at election time. What that boils down to is that THE PEOPLE, YOU AND ME, ARE THE GOVERNMENT. It is false and misleading to refer to our elected representatives, and those they appoint, as THE GOVERNMENT. They are, in fact, our employees, and their sole purpose is to provide us with the services which we ask them to provide.

Over the past 15 years particularly, the people of this State have asked, petitioned, and pleaded for some kind of meaningful reform in the way property taxes are determined and spent. Our elected employees have repeatedly failed to provide this reform. Instead, property taxes have risen drastically. Unfortunately, we are not taxed to pay for our needs, but rather, "needs" are found to justify use of the money actually collected.

State government is horribly bloated and wasteful. It is imperative that the "power of the purse strings", so misused by politicians in recent years, be returned in large measure to its rightful owners, THE VOTERS. Property tax payers, especially, have been gouged too long and too deeply.

Therefore, two California residents, registered to vote in this State, have "taken the initiative" and through their respective organizations have collected enough signatures to place on the June 6, 1978 ballot, an initiative which will provide the first long-lasting and meaningful property tax reform in the State's history. An initiative measure is the true voice of the people, THE GOVERNMENT, and it speaks loudly and clearly to our elected employees throughout the State. When approved by the voters IT WILL BECOME LAW and will take effect shortly thereafter.

QUESTION: What is the correct name of the initiative?

ANSWER: Property Tax Limitation. Initiative Constitutional Amendment.

Q. What will the Jarvis-Gann Initiative be known as?

A. Proposition 13 as assigned by the Secretary of State.

Q. What does the Jarvis-Gann Initiative do?

A. First of All, IT IS NOT A TAX SHIFT PROPOSAL. A TAX SHIFT IS A TAX SHAFT! Briefly, the Jarvis-Gann Initiative does the following: Limits ad valorem taxes on real property to 1% of value except to pay indebtedness previously approved by voters. Establishes 1975-76 assessed valuation as base value of property for tax purposes. Limits annual increases in assessed value to 2% per year for tax purposes. Provides for reassessment after sale, transfer, or construction. Requires 2/3 vote of Legislature to enact any change in State taxes to increase revenues. Prohibits imposition by State of new ad valorem, sales, or transaction taxes on real property. Authorizes specified local entities to impose special taxes except ad valorem, sales and transaction taxes on real property.

Q. Can you give me a practical example of its effect on the property taxes of an individual homeowner?

A. Certainly. It will REDUCE the average property tax burden by about 64%. That means if you are currently paying approximately $1,500 a year in property taxes on your home valued at $50,000, your taxes would be CUT to approximately $500 a year. And they can't raise the market value of your home by more than 2% a year for tax purposes.

Q. What will be the impact on local governments in dollar terms?

A. Contrary to other reports - including the Fiscal Impact Report prepared by the State - the reduction will amount to approximately $6 billion in revenue for the coming year. This money would have gone to the local governments.

Q. But the local governments need that money to function properly, don't they?

A. Not if they did what People's Advocate is urging and that is to limit property taxes to property related services. In that event there would be more than enough money supplied by the 1% limitation imposed. But under the current system, even cutting out a lot of fat and wasteful spending, they would still need much of it.

Q. Then what new taxes or other increased revenues will be necessary to make up for this loss?

A. NONE!

Q. How can that be possible? Opponents of the Jarvis-Gann Initiative are saying that it will cause financial chaos and a drastic reduction in vital services unless the general sales tax and personal income tax are doubled.

A. That is nothing more than scare tactics to frighten the voters. It is simply NOT TRUE.

Q. Then where will the money come from?

A. We already have 50% of the money - right now - in the bank, earning interest. It is OUR MONEY, not the State Legislature's and it must be returned to local communities for their use.

Q. What money are you talking about?

A. The $3 billion STATE SURPLUS from 1977 is already available for distribution back to local government. This surplus is growing daily and is expected to be much higher by the end of 1978 but we'll stick to currently confirmed figures from the State Treasurer's office to avoid overstatement.

Q. That makes sense; but what about the other $3 billion?

A. That amount will be available if we just HOLD THE LINE in 1978-79. That means no budget increases next year at any level of government; State, local, schools, or any other government entity within the State. As an example: the State budget for this fiscal year is $14.4 billion. That amount provides more than adequate goods and services for all departments of government. In fact, it also provides for a great deal of waste and stupid, unnecessary expenditures which can no longer be tolerated. The situation has become so crucial that many people have literally been taxed out of their homes with many, many thousands more at a very critical point. The next raise will put them over the brink.

Q. I'm starting to get the picture, but I'm still not clear on the arithmetic. It seems like you're coming up with billions of dollars out of nowhere.

A. Then let's clarify it for you. Politicians for years have clouded the issue of tax reform with complicated explanations that have only demonstrated their lack of understanding of common sense bookkeeping and everyday economics. Let's make this very simple.

The State of California will collect $16.2 billion in tax payments next year AUTOMATICALLY. (These are their figures, not ours.) This amount will accrue without any tax increase of any kind because tax collections are growing at every level of government due to inflation. And a decrease in property tax revenue will not affect the State's income because property tax payments are collected by local governments and DO NOT go into the State's general fund.

Here, then, is the real dollar story.

	$16.2	Billion collected
	-14.4	Billion HOLD-THE-LINE BUDGET
equals	$ 1.8	Billion Additional surplus
	+ 3.0	Billion current surplus (growing!)
equals	$ 4.8	Billion projected surplus (conservative)

This money would be returned to local governments to replace shortfalls of property tax revenues.

Q. It's getting clearer. But you said the Jarvis-Gann Initiative would decrease property tax revenue $6 billion. Aren't you still about a billion short in making up that amount?

A. And here's where that comes from: In the Fiscal Impact Report prepared by the State, they estimate a savings in State funds of $800 million dollars. That comes about because the State pays a proportionate amount of the property tax bills of most senior citizens and other qualifying low-income groups. It also pays for the portion not charged to you due to the Homeowner's exemption. This money is paid to the local government from the State's general fund.

The Jarvis-Gann Initiative, when it becomes law by majority popular vote and takes effect in July, 1978, will immediately lower the property tax burden of ALL property owners. The State will then have to rebate less to the local governments and those receiving proportionate shares of their bills. The State says they will be saving $800 million. But just as they over estimated the cost to local government, our accountants tell us they have under estimated the savings. We figure that savings to be about $1 billion. And local governments will be receiving greater incomes from local taxes due to inflation. That is where the additional monies will come from. It's simple, but not simple-minded as some of the figures we get from government appear to be. It is the truth.

Q. How was the huge State surplus created in the first place? It doesn't make much sense to me that my property taxes are going out of sight and at the same time there is TOO MUCH MONEY in the State Treasury.

A. It doesn't make much sense to People's Advocate either. It's a difficult question to answer but the main reason seems to be the built-in escalating effect of inflation on the current illconceived method of determining State income tax liability. If you get a simple cost-of-living increase in pay it's more than wiped out by the application of a higher income tax bracket and the continuing effects of inflation. You may actually end up with less net spending power or even actual dollars than you had before the raise! In the meantime, the State reaps a huge tax bonus.

Q. Are there currently any plans by the State Legislature to use this surplus for our benefit?

A. That remains to be seen. Petty bickering and political partisanship will probably prevent it. Most legislators seem intent on using it as some form of a vote-buying program. At least one State Senator

has been quoted as saying that he thinks State legislators "....have shown great restraint by not spending all that money." With fuzzy-headed thinking like that in vogue in Sacramento the outlook for that surplus is hardly encouraging if we leave it up to them. Sooner or later they must realize THAT IS OUR MONEY, NOT THEIRS!

Q. The benefits of this initiative to homeowners is evident. But what about the renters? Why should they vote for Jarvis-Gann?

A. A major cause of skyrocketing rents is the necessity of passing along the landlord's property tax increase to the tenant. If those property taxes are significantly decreased then those savings can be passed along, too. And THEY WILL be passed along in the form of rent reductions. In the first place, landlords don't want rent controls and they realize that's where we're heading if something isn't done quickly. If they tried to keep the tax decrease as a windfall profit they realize they would be hastening its arrival. Also, with lower, controlled property taxes there would, in all probability, be an increase in the building of apartment houses enabling the laws of supply and demand to keep rents lower. THE JARVIS-GANN INITIATIVE IS THE ONLY IMMEDIATE HOPE LEFT FOR RENTERS. And People's Advocate pledges that if the passage of this amendment doesn't bring about a general reduction in rents we will work with other groups to bring about such help. We don't, however, think that will be necessary. Hundreds of landlords throughout California have already told us they plan to reduce rents if Jarvis-Gann becomes law.

Q. What about the argument that "business interests" are the real beneficiaries of this property tax decrease and that the individual homeowner gets the short end of the stick?

A. That's just a clever tactic used by the initiative opponents to pit the homeowner against commercial interests. They hope to confuse the issue and anger homeowners by creating a "privileged business tax class." NO SUCH CLASS EXISTS. Currently, property tax payments by business in the State account for approximately <u>two-thirds</u> of the total property tax collected. It's only fair they should experience a proportionate saving. This saving in <u>no way</u> will be at the expense of the individual homeowner. The 1% limitation applies ACROSS THE BOARD to all taxable property.

And consider a couple of other points: businesses are leaving California at an alarming rate because of high taxes. They take their jobs with them. Not only will Jarvis-Gann keep many of those businesses and jobs in the State but, once again, the laws of competition will allow business to pass savings along to customers in the form of lower prices. BUSINESSES DO NOT PAY TAXES. They pass them along to their customers. PEOPLE PAY TAXES.

And businesses are made up of PEOPLE - the same people who go home at night and lose sleep wondering how they're going to pay their own home property tax AND their business property tax. Once again we see the hand of government trying to pit one class or group against

another. Keep the people divided and they will have their way. It's foolish and destructive to view our society as a bunch of belligerent and competing groups. We are all Americans and we're all in this tax mess together and the one class we all belong to is labelled TAXPAYER!

Q. So what you're really saying is that $6 billion can be saved by property taxpayers next fiscal year, and that if we hold the line we'll all be fine?

A. Absolutely. And can you imagine the tremendous boost to California's economy that will result from an injection of SIX BILLION DOLLARS of disposable income? People aren't going to take those savings and put them in a tin can to bury in their yard. They're going to SPEND IT!

That means more jobs and more housing. It also means more revenue for the State from sales and income taxes and even property taxes as a result of that new spending. So what looked like a severe problem at first is actually a workable, attractive solution.

Q. If we really hold the line though doesn't something have to give eventually? What about public service employees like teachers, policemen, firemen, etc.? What about automatic cost-of-living increases? A lot of people are legitimately worried about our schools and the quality of education. And what about those people on welfare?

A. Whoa! That's a lot of questions. But your concern is justified. Specifically, hold-the-line for fiscal 1978-79 means just that: NOT ONE public school teacher currently under contract to any school district need lose his or her job because of property tax revenue decreases due to the Jarvis-Gann Initiative. And that applies to administrators, aids, maintenance and others as well. NOT ONE fireman will be laid off; NOT ONE policeman will be taken from his beat or out of his squad car; NOT ONE deserving welfare recipient will be denied benefits, etc., etc. In short, NO CURRENTLY AVAILABLE PUBLIC SERVICES OR EMPLOYEES NEED BE DELETED AS A RESULT OF PASSAGE OF THE JARVIS-GANN INITIATIVE. Existing wage agreements, pensions and contracts will be honored fully, and legitimate and fair cost-of-living increases will be available in the future on a regular basis.

To those employees who might be quick to complain about not receiving a pay raise next year - look behind the rhetoric and understand the real meaning of PERSONAL CASH FLOW. A dramatic savings in property taxes right now is a real salary increase no matter how you look at it. On the other hand, what seems to be an attractive salary hike when granted to public service employees by the State or local government just gets eaten up by inflation and higher income taxes. DON'T BE FOOLED! The big raises are paid for from taxes. We ALL pay those taxes and that includes the public service employees.

HOLD-THE-LINE means that what you now have is what you'll get, because that's how much money is available to pay for it. No more, and definitely no less. Ask yourself, which would you rather have; a

multi-million dollar State Space Shuttle Program, for example, or the security of your own home and family? The choice is completely yours because you are the government.

The scare tactics and horror stories implied by irresponsible opponents of the initiative just won't work anymore. For instance; your house or office building isn't going to burn down because there wouldn't be enough firemen to put out the fire. The real alternative is that you may well be forced out of your home by exorbitant property taxes!

Q. What you've said sounds great - for the first year. But what about the years to come? We can't always rely on a surplus to make up lost revenue.

A. How right you are! The Jarvis-Gann Initiative is meant to focus attention on the desperate need for re-ordering of our long range priorities. Fiscal responsibility and a taxation system responsive to our real needs is imperative. Political platitudes are easy but meaningful reform takes a lot of hard work. This initiative is a well-conceived and productive first step. Now it is up to our elected servants to take a hard stand and bring about some of the vitally needed reforms.

Q. Do you have any suggestions for such reforms?

A. Definitely! During the hold-the-line year, for example, we are asking that the first steps be taken to bring about a reduction in government work forces. We are asking for a hiring freeze to go into effect at all levels of government and, through attrition, for reductions to continue until there is a ratio of one government employee for each 120 citizens. The current ratio in the State is approximately 1 for every 93 people.

We are also asking the State to immediately comply with the Serrano decision and assume full funding of the schools by use of the sales tax. After all, it was originally instituted in this State for that specific purpose. And we are going to insist that money be sent to the local school districts with ABSOLUTELY NO STRINGS ATTACHED. We don't want State control of the schools. Yes, we realize that will cost the State about $3\frac{1}{2}$ billion and will necessitate further economies in Sacramento. But if our Legislators can't look at their bloated budgets and see some of the wasteful, extravagant expenditures of our taxpayer dollars then People's Advocate will be only too happy to supply them with a large list of suggestions from which they can work. And we'll supply it FREE OF CHARGE!

Q. Do you really think you can get government to hold the line; go a whole year without raising budgets? And do you think they would ever make the economy cuts you suggest?

A. It is about time that elected officials realize that the people have had their fill. For years we have asked for tax reform. Now we are demanding it! And the people now realize they have the strength to back up their demands. Over one million signatures should be enough proof of that.

If government decides to ignore our suggestions and tries to raise other taxes to continue wasteful spending then People's Advocate will head another petition fight to reverse those raises. If they ignore the public's demand to hold the line on budgets then People's Advocate will lead an initiative fight to place strict Constitutional limits on ALL government spending for years to come. And along the way we may just help vote out of office some of those who continually want to spend more.

We are at a crossroads. Either the people control the government or the government controls the people. When it's the latter you have, in fact, a dictatorship. And how far are we from that dictatorship when the government tells people that if they try to lower their taxes they will be punished!

We have become tired of unkept promises; of lies; of deceit; of trickery. We expect only certain things from government and we are rebelling against other things being forced upon us by elected officials who try to tell us they know best what our needs are. We are not children to be spanked and sent to bed hungry when we ask for fiscal responsibility. We are taxpayers who can look at our checkbooks and realize we are being taxed right out of our most cherished right to own our homes. And this from officials who seem intent on perpetuating themselves at the public trough by "buying" votes with our money. Indeed, they are using our money to fight us on this very issue!

We feel we are offering sane, rational approaches to the desperate problems that face us. Meanwhile our elected officials scream about what we are doing to them and how much other taxes must be raised to meet their demands. Isn't it strange that not one of them has come out with concrete cost-cutting proposals?

The answer is very simple. We either vote for the Jarvis-Gann Initiative or face the prospect of losing our homes. Ask yourself for the alternatives. What are you going to do the next time your property taxes are doubled?

Q. What can I do to help?

A. Exercise your constitutional rights; let your voice be heard. VOTE YES on the Jarvis-Gann Initiative on June 6, 1978. Urge friends to do the same!

There is another way you can help. This fight to let the TRUTH be known is expensive. If you can contribute any sum it will be a help. Make your check payable to People's Advocate, and mail to P.O. Box 596, Carmichael, CA. 95608. Thank you.

MANY YEARS OF TAX RESEARCH IN 30 MINUTES OF READING

PEOPLE'S AMENDMENT TO CONTROL TAXATION

The People Are The Government - Not The Politicians

"A Bill of Rights For All Taxpayers" Vote on 13 ☒

"A Law to Reduce Rents" YES

The legislature had time to enact more than 1000 bills last year. But no time to pass A PROPERTY TAX REFORM BILL.

Information center in your area is:

The PEOPLE'S AMENDMENT TO CONTROL TAXATION IN CALIFORNIA requires that property taxes be FAIR to all, EQUAL to all and within the ABILITY of ALL TO PAY.

WHAT THE AMENDMENT DOES: 1. It binds all public officials in California; 2. limits property taxes to 1% of the fair market value of all real property ; 3. limits, assessor increases in the value of real property to 2% per year; 4. requires a ⅔rds vote of both houses of the State Legislature to raise any other taxes; 5 will keep thousands from losing their homes and make it possible for thousands who cannot now buy homes to do so; 6. It will save home and property owners $7 billion a year in tax payments, make rent reductions possible, enable business to stay in California, create thousands of new jobs in construction and related fields by making building improvements possible and reduce monthly mortgage impound tax payments, for home buyers.

HOW CAN ELECTED OFFICIALS MANAGE WITHOUT THE $7 BILLION THE PEOPLE WILL SAVE? First, by cutting wasteful expenses. Second, by stopping reckless year-end buying of equipment and supplies to justify bigger budgets for new appropriations. Third, by refusing to agree to matching fund programs demanded by State and Federal governments. Fourth, by abolishing joint power agreements. Fifth, by abolishing public appropriations for quasi-public special interest groups. Sixth, by abandoning phony sick leave grants to public employee who are not sick. Seventh, by eliminating prevailing wage schedules which, when added to exhorbitant fringe benefits, provide salaries far in excess of private employment. Eighth, by bringing public pension plans into line with those offered by private employers. Bar public employees from drawing more than one tax payer paid for pension. Ninth, by barring illegal aliens from getting welfare, medical and dental care costing millions of dollars annually, after only 30 days residence in California. Tenth, by eliminating grandiose government plans for massive forced busing of schoolchildren. Eleventh, by putting a solid check on the extravagance of the Community College system.

THE REAL QUESTION IS NOT WHERE ELECTED OFFICIALS ARE GOING TO GET THE REPLACEMENT MONEY, BUT WHERE THEY ARE GOING TO SAVE THE MONEY. President Carter has said "the tax system is a disgrace to the human race." According to the California League of Cities, the State Association of Boards of Supervisors and James Hayes of the Los Angeles Board of Supervisors, "96% of all cost in county government is locked in by state and federally mandated programs." The catch now is that these programs must be accepted by local governments. The passage of the amendment will prevent the acceptance of these programs. If such programs are beyond the ability of local governments to pay for them, they either will have to be scaled down or scrapped, it is that simple. We, on the local level, do not need all of these state and federal programs. It is about time that the donkey stopped chasing the state and federal carrot!

THE POLITICAL SNOWJOB: Spending politicians, like David Roberti, Howard Berman, Alan Sieroty and Leo McCarthy, will cry that the amendment will be a "disaster" for local governments. Don't believe it.

✓

THE TRUTH: "A 1% limit would still leave property tax revenue far above the level required to pay for property related services", says Dr. Neal Jacoby of UCLA, a nationally recognized tax and business expert. Property related services, such as fire and police protection, sewers, garbage collection, parks, streets and lights, are what property taxes were designed to pay for in the first place. The property tax system has been perverted by politicans loading non-property related services and programs on the backs of the property tax payer.

THE SCHOOL SNOWJOB: These same politicians, along with other bureaucrats, claim that the amendment will be a "disaster" for school financing. Don't believe it.

✓

THE TRUTH: Regardless of the amendment, after 1980 according to the State Supreme Court, the property tax system may not be used as the basis for school financing. Here are the words of the Court, in the case of Serrano vs. Priest:

> "We are called upon to determine whether the California public school financing system, with its substantial dependence on local property taxes and resultant wide disparities in school revenue, violates the equal protection clause of the Fourteenth Amendment.
>
> We have concluded that such a system cannot withstand constitutional challenge and must fall before the equal protection clause."

Remember, there is not one word in the amendment about schools.

THE SPLIT ROLL SNOWJOB: These same politicans claim the amendment will be a new "windfall" for business and propose a "split roll" be enacted into law, making business operators, including apartment owners, pay property taxes at a higher rate than individual homeowners. Don't believe it.

THE TRUTH: First of all, the amendment will not be a "windfall" for business. It will be a means whereby we can insure our present runaway property taxes are brought under control. If business overhead, which includes property taxes, begins to de-escalate, we can expect that prices, and rents, will begin to de-escalate. Business does not pay taxes, it merely passes those taxes on to the consumer The politicians love such hidden taxes because they don't have to take the blame for them. Secondly, the "split roll" concept, to be enacted into law, would take a constitutional amendment, passed by the people of the state. When properly informed, we doubt that the people are going to vote for any more laws that allow the politicians to impose more hidden taxes upon them.

POLITICAL DOUBLE TALK: The politicians now claim passage of the 1% amendment will give business a "new tax windfall". This is a lie! - For more than 50 years the state constitution has required both residential property and business property be valued, assessed and taxed ON THE EXACT SAME BASIS. The 1% amendment makes NO change at all on this ratio. If business has had a "windfall break" for the last 50 years, why have these politicans concealed it from the public? Is it not strange these politicians have lived in ignorance about this for 50 years, or if they were not ignorant, they have been lying to the public all this time, and are now lying again!

WHAT THE 1% PROPERTY TAX LIMITATION AMENDMENT DOES NOT DO:

1. IT DOES NOT drive businesses and jobs out of California;
2. IT DOES NOT reduce Veterans benefits;
3. IT DOES NOT reduce tax exemptions for senior citizens;
4. IT DOES NOT reduce tax exemptions for churches and charities;
5. IT DOES NOT raise sales or income taxes;
6. IT DOES NOT reduce tax money available for schools;
7. IT DOES NOT prevent tax raises by vote of ⅔rds of the legislature;
8. IT DOES NOT impose a sales or transfer tax on real property;
9. IT DOES NOT cover more than a single subject:
10. IT DOES NOT fail to meet all legal requirements;

CONCLUSION: Heretofore, we have given state and local governments unlimited budgets, and they have exceeded them. By passage of the amendment, we will insure these excesses will not continue.

IMPORTANT NOTICE: All our supporters should read this fact sheet carefully. It may, and should, be used as the basis for speeches and articles. A copy of this fact sheet should be delivered to all publications, radio and television editors in the state. Please call radio talk shows and make one or more of the points set forth above. Remember, we have the right to rebut any radio or television editorials on the subject of the amendment, cost free. Please be sure that such rebuttals are made, and made promptly. Please call your friends and discuss the amendment and the fact sheet with them. They will be willing to assist us in assuring that the amendment is passed.

Please inquire of our supporters as to whether or not they have registered to vote in the June 6, 1978 election. If not, please call the Registrar of Voters and obtain a registration card for them. Anyone can obtain such cards for themselves or others.

Don't wait to start campaigning for the 1% property tax amendment. Start now! The opposition will extract millions of dollars from public employees for its media campaign. We cannot match their money, but they can't match our votes. Remember, 1,268,000 California voters (not counting thousands of signatures received after the deadline for filing the petitions: signed the 1% property tax limitation amendment.

IF WE ALL PULL TOGETHER,
THEY CAN'T TAX US APART !

Reprints as is granted.

AN ADDRESS BY DR. NEIL JACOBY, UCLA
Nationally Recognized Business & Tax Expert

We citizens of Los Angeles and of other California communities are outraged by the ballooning property taxes being levied against our homes. Property tax bills are rising much faster than family incomes. Soaring property taxes threaten to dispossess older people from the homes they have occupied for many years. They debar young couples from buying the homes they need to rear their families. They threaten to erode away the foundation of American society: the family-owned home.

The time has come for decisive action to curb and reverse the upward trend in property taxation. We must make our voices heard in the councils of our cities and in the legislative halls of Sacramento. We must deliver an unmistakable message to our elected representatives that no longer will we permit misuse of the property tax to finance welfare, health, educational and other governmental services that serve all of the people in our state. Such government spending programs should be paid for by revenues collected from all the people.

I speak here as a university economist advancing my own proposals, and not as a representative of any institution or group. As a California homeowner for nearly thirty years, I share your concerns. As an economist, I believe property owners suffer from a grave inequity in the tax system. I do not intend to burden you with a mass of financial statistics. The major facts are well established. What we need today is clear and honest thinking about basic principles of taxation and government spending. We have already had more than enough political gimmicks and proposed welfare handouts coming from Sacramento in the guise of "property tax relief."

THREE BASIC PROPOSALS

I ask your support for basic proposals:

First, that California homeowners and other citizens unite to support the People's Petition to Control Taxation. This is a petition to put on the ballot of the next state election a proposition to write into the California constitution a limit on property taxes of 1 percent of the fair value of property. The owner of a home worth $50,000 would pay no more than $500 tax a year plus a small override to cover bonded debt service, for example. If this lid were put on property taxes today it would cut our tax bills substantially. It would guard against further abuse of the property tax. By curbing the widening flow of government revenue, it would compel our public officials to cut wasteful spending and stop giving out-sized annual increases in the pay and benefits of public employees.

That California homeowners and other citizens support permanent reform of our state and local revenue systems to limit property taxation to the financing of property related services, such as street and light maintenance, sewers, trash collections, and police and fire protection. All other government expenditures should be financed by sales, income and other taxes paid by all members of society.

Why should you support these proposals?

Let us consider them in turn.

A CONSTITUTIONAL LIMIT ON PROPERTY TAXES

To write into the California constitution a limitation on property taxes of 1 percent of fair market value is a bold reform. Opponents say it would create undue rigidity in the tax structure, and cripple local governments in California.* The plain truth, however, is that a property tax limit is now necessary to force legislative and

administrative reforms by our public officials. Only this direct and decisive action by the voters will oblige our public officials to reduce public spending and to restructure the California revenue system. So far, public officials have failed to act effectively to meet these public demands. Meanwhile, property tax bills keep rising, year by year, simply because land and buildings are fixed in location and cannot be moved to escape the rising burdens. This unjust process must be brought to an end. Although a 1 percent limit is rigid it would be a move in the right direction. A 1 percent limit would still leave property tax revenues far above the level required to pay for property-related governmental services.

How did California get into this pickle? The taxation of land and buildings according to their value began when American society was predominantly rural and agricultural in nature. A century ago property was a fairly good measure of a person's wealth, as well as of the benefits he or she derived from government services. Today we live in a highly industralized and urbanized society. Government spends huge sums on welfare, health, education and recreation. Wealth takes a multitude of forms. People's incomes have little or no relation to their ownership of land and buildings. The only justification for property taxation today is to enable government to recoup the cost of benefits to property. Being based on the benefit principle, property taxes should be levied only to meet the costs of property-related services, such as police and fire protection, street lighting and maintenance, garbage collection, and the like.

Yet, California illogically and unfairly continues to treat the property tax like a personal income tax - as a measure of ability to pay. Property taxation has mounted far beyond the level required to finance benefits to property. Much of it finances programs and health services, whose benefits are reaped by the entire population.

Opponents of the 1 percent limit on property taxes argue that it would provide as much relief to owners of farms, factories and commercial property as to owners of residential property. My response is that property tax relief to agriculture and business is desirable to enable California's economy to generate more production and jobs. Farmers and businessmen as well as homeowners have been victims of the abuse of property taxation.

Another argument made against the 1 percent property tax limit is that the capitalized amount of property taxes is subtracted from the value of property at the time of sale. To reduce a long-imposed tax, it is said, would put a windfall gain into the hands of the owner who bought the property subject to the present level of taxes. But this is not the case in California. Here taxes have soared upward within the past few years. The increases have been borne, for the most part, by present owners of property. A cut in property taxes would merely restore some of the value previously taken away from them. It would reduce an existing inequity rather than create a new one.

Politicans tend to spend all the revenue coming into the public treasury. Hence, the only effective way to curb government spending is to turn down the revenue spigot. Inflation has pumped up government revenue, and public officials have voted themselves higher salaries, put more jobholders on public payrolls, and fattened the compensation packages of government workers. This easy process of spending more and more must end. The hard task must now begin of weeding out wasteful and questionable spending programs that have made taxpayers burdens intolerable.

You can help to begin this process by signing the Petition for a Constitutional Limit on Property Taxation, by circulating the Petition among your friends and neighbors, and by personally involving yourself in a campaign to write a property tax limit int the California constitution.

LIMIT PROPERTY TAXATION TO PROPERTY-RELATED SERVICES

One proposition on which economists generally agree is that the property tax is overused in state and local government finance.* Now the courts have joined in this consensus. The basic implication of the historic Serrano decision is that property tax financing of schools in California should be reduced.

During the past year the California legislative calendar was filled with proposals for property tax relief and reform. The bill that commanded most attention, and which was backed by Governor Brown, proposed to rebate some of the excessive property taxes collected from us. The joker was that rebates would be made on a descending scale as incomes rose, until those with incomes of $40,000 a year or more got nothing.

The Brown Bill was wrong in theory and practice. It distorted property tax relief into a welfare payoff. True property tax relief called for a rebate of the same proportion of property taxes paid to every taxpayer, whatever his income. To scale the rebate downward as personal income raises is to twist the property tax based on the benefit principle into a personal income tax based on ability to pay. California would never develop a rational revenue system if it went down this road.

Other proposals for property tax reform have been made by well-intentioned persons who have not considered their implications. The so-called "split tax roll" and "split assessment" are examples. The "split tax roll" would impose a higher property tax rate on industrial or commercial property, or on apartments, than on single-family homes. Such a system would violate the benefit principle that underlies property taxation. The benefits of property-related government services are the same per dollar of assessed value for commercial and industrial as for residential property. Hence, all classes of property should be taxed at the same rate. Apart from its violation of sound principles of taxation, the split-roll proposal would load differentially heavier burdens on business property at a time when many businesses are considering leaving California for other states whose taxes are less burdensome. For these same reasons, we should reject the "split assessment" proposal, which would assess commercial and industrial property at a higher fraction of its true market value than residential property. And we should be skeptical about proposals to offer special property tax concessions to particular groups in society. The so-called "circuit-breaker" relief plans found in many states rest in dobious economic grounds. The poor or the elderly are best helped by an across-the-board cut in property tax rates that will benefit all of us.

Property taxes yield about $9.4 billion in California during the year ended June 30, 1977. They produced 38 percent of all California state and local government revenue. By one estimate, nearly 60 percent of property tax revenue - $5.5 billion - was spent on education, health and welfare benefiting all of the population, while only the balance of 40 percent - $3.9 billion - benefited property.* The most conservative estimate is that expenditures not related to property accounted for 51 percent and property-related services for 49 percent of property tax revenues. In any event, the property tax bill of the average California homeowner would be less than half its present amount if property taxes paid only for property-related services. This fundamental inequity in California taxation should be removed!

Any deficit in government budgets should be closed by slowing the growth of governmental spending.

CONCLUSION

The principles that should govern tax reform in California are cl[illegible] So is the main direction of necessary reform. What is now n[illegible]ed is the political will of state and municipal officials to apply these principles.

We can act now to accelerate necessary long-run reforms. We can work to insure that the one percent property tax limit is written into the California constitution. This is only first steps in the fiscal regeneration of California. But it is a strong step in the right direction.

(*See, for example, Dick Netzer, "Is There Too Much Reliance on the Property Tax" in **Property Tax Reform** ed., George E. Peterson, Washington, D.C.: The Urban Institute, 1973)

(*Estimates have been made by members of the staffs of Supervisor Baxter Ward and the Economy and Efficiency Commission of Los Angeles County.)

(*In 1973 I publicly opposed Former Governor Reagan's proposal to limit future increases in State expenditures according to a formula. However, that proposal involved much different considerations than a 1 percent limit on property taxation. See "Arbitrary versus Rational Limits on State Expenditure," in **The California Tax Limitation Amendment: Wisdom or Folly** (UCLA, Instituted of Goverment and Public Affairs, July 1973)

Dr. Neil Jacoby is one of the best known National Authorities on taxation, economics and business.

For additional copies, send self addressed, stamped envelope to;

United Organizations of Taxpayers,
6431 W. 5th St., Los Angeles, Cal. 90048
Howard Jarvis - State Chairman or
Peoples Advocate,
P.O. Box 596, Carmichael, California 95608
Paul Gann - President

We Call The Legislatures

Plan For Taxpayers

"Prepharation Aitch".

Legislative hypocracy: While pretending to be for property tax reduction, the legislature has placed two gigantic bond issues on the June 6th ballot. One for $350,000,000.00 and another for $375,000,000.00. Total $725,000,000.00. Which if approved will cost the taxpayers, including interest $1,450,000,000.00. We must defeat these exhorbitant 40 year mortgages in peoples homes and property in California.

More hypocracy: This legislature passed a bill to empower school boards, with out any vote or consent of the people, to add 10% to the property tax. Our 1% property tax amendment will knock this one out, and all other taxation without representation. Repeals the abusive S.B.90.

Figures may not lie-but some liars figure to convey misleading information to the public and the press. Example: The State Board of Equalization says commercial property pays 65% and residential property pays 35% of the property taxes in California. The claim is then made the Jarvis-Gann property tax limitation amendment gives a "tax break to business at the expense of residential property".

The U.S. Supreme Court has ruled that all living quarters, owned or rented, are the legal residences of the occupants - those who rent, pay the property taxes on their residence the same as those who own their living quarters.

Rented dwellings are not commercial property, and for tax purposes, should not be so listed. This changes the residential-commercial ratio to approximately 65% residential and 35% commercial. California now has over 10 million renters.

The arbitrary ratio classification may be a convenient computer method for use by the State Board of Equalization, but it has no basis in law or in fact.

RENTERS: We believe passage of this amendment, with your votes, will reduce your rents. Some renters may not believe this-but renters better believe that if the amendment does not pass-property taxes will go up more ever year - - and rents will go up more every year.

From all state sources California collects $40 billion [40 thousand million dollars] each year in taxes. The state claims, [which we deny] the 1% property tax limit would reduce the state take $7 billion. [7 thousand million] a year. BUT taking the state figure would still leave the state agencies able to collect $33 billion [33 thousand million] each year from the taxpayers. A 15% reduction. [Federal income taxes and Social Security taxes are EXTRA.]

PRELIMINARY ANALYSIS

OF

JARVIS/GANN INITIATIVE

January 23, 1978

AN INFORMATION REPORT TO THE

SAN DIEGO COUNTY

BOARD OF SUPERVISORS

Prepared by:

Policy Analysis Section
Policy and Management Division
Office of Management and Budget

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I. INTRODUCTION

In early December 1977, the "Peoples Petition to Control Taxation" was filed with Registrars of Voters and County Clerks throughout California for verification of signatures in order to qualify for the June, 1978 primary election ballot. On December 23, 1977, the California Secretary of State announced that the petition, more commonly known as the Jarvis/Gann Initiative, had qualified with in excess of 1.2 million signatures - more than twice the number required.

This report, as requested by the San Diego County Board of Supervisors, is a preliminary analysis of the Initiative's potential fiscal impact on local governments in San Diego County. A second report, to be published in approximately two weeks, will examine the impact of the Initiative on specific services provided by property tax supported local governments in San Diego County.

In addition to estimating the Initiative's fiscal impact, this report discusses questions raised by provisions of the Initiative and identifies additional issues raised by the Initiative. The interpretations are based on currently available information, and are subject to refinement after further analysis.

Summary of Initiative

The Jarvis/Gann Initiative would add Article XIII-a to the California Constitution containing the following provisions:

- Limits ad valorem property taxes of all real property to one percent (1%) of the full cash value of the property.
- Exempts existing voter approved bonded indebtedness from the 1% limitation.
- Defines "full cash value" as the Assessor's appraised value of real property as of March 1, 1975, adjusted by changes in the Consumer Price Index - not to exceed 2% per year.
- Permits establishment of a new "full cash value" when there is new construction or a change in ownership.
- Permits the reassessment, up to the March 1, 1975 value, of property which was not current on the 1975-76 assessment roll.
- Requires counties to collect the 1% property tax and to "apportion it according to law to the districts within the counties."
- Prohibits new ad valorem taxes on real property, or sales taxes, or transaction taxes, on the sales of real property.

- Permits the imposition of special taxes by local agencies, other than those prohibited, by a two-thirds (2/3) vote of the "qualified electors" of such agencies.

- Requires a two-thirds (2/3) vote of all members of both houses of the Legislature for any changes in State taxes which would result in increased revenues.

Timing of Jarvis/Gann Implementation

If the Jarvis/Gann Initiative is approved by a simple majority of the voters on June 6, the provisions relating to the maximum property tax limitation will go into effect on July 1, 1978 - twenty-five days later. The provisions relating to the 2/3 vote requirement for the Legislature to enact increased State taxes will become effective immediately upon passage.

II. PROPERTY TAXES IN CALIFORNIA

History of Property Tax Initiatives

In 1968, an initiative developed by Los Angeles Assessor Philip Watson proposing a 1% limit was placed on the November ballot as Proposition 9. It was defeated by the voters by a vote of 2,146,010 Yes to 4,570,097 No (32% - 68%). The measure was revised and placed before the voters as Proposition 14 in November 1972. The second "Watson Initiative" proposed a series of tax rate limits for the various units of local government - which in the aggregate amounted to a limit of between 1.75% and 2%. Again the initiative was defeated, by a vote of 2,700,095 Yes to 5,213,485 No (34.1% - 65.9%). Subsequent to the second initiative, the Legislature acted to impose separate rate limits in cities, counties, and districts, and a revenue limit on schools in SB90 of 1972. Since the passage of these tax rate limits, average property tax rates have declined.

Despite the tax rate limitations imposed by SB90 of 1972, however, property tax revenues throughout the State have increased. This has been due in part to the effect of inflation on local governments, in part to the mandates by State and Federal Governments for new and more costly programs, and in part to the phenomenal growth in the market value of housing in California.

Current Reliance on Property Taxes

The State Board of Equalization estimates that property taxes in California will exceed $10 billion in 1977-78; property tax revenues increased 12.9% in 1976-77 over the previous year.

These revenues finance public schools, cities, counties, and special districts. These organizations vary in their reliance on property taxes depending on the provisions of State law which govern their finances. For example, school districts, which account for 50 - 60% of the property taxes collected in the State, are financed under provisions of the Education Code which specify certain calculations to arrive at the funding level per unit of average daily attendance (ADA). The State law further prescribes how much of this level will be provided by State financing and how much will be required from local property tax collections. There are also a few programs financed by property taxes that are at the option of local school districts, but these represent a very small proportion of overall school finance.

In contrast, certain types of special districts have legislative authorization to levy service charges sufficient to cover the cost of operations. These districts may levy property taxes, but in many instances do so only to cover the cost of voted bond indebtedness.

Other types of special districts, such as fire protection districts, are totally reliant on the property tax for their financing.

Municipal and County reliance on the property tax varies widely around the State. For cities, the two major sources of financing are the retail sales tax and the property tax. Cities also receive revenue from charges for certain services and from Federal and State grants, including revenue sharing. Further, charter cities are authorized to levy certain special taxes, such as the business license tax, to provide additional revenue.

Counties rely on property taxes to finance approximately 25% of their operations. Counties receive the largest share of their revenue from Federal and State subventions and grants. Additional major sources of revenue are charges for services and sales taxes from retail sales in the unincorporated areas. Appendix A describes the present method for determining property taxes.

III. POTENTIAL FISCAL IMPACT ON LOCAL GOVERNMENTS IN SAN DIEGO COUNTY

Current Property Tax Reliance

In Fiscal Year 1977-78, there are 300 separate agencies in San Diego County authorized to levy taxes on the value of real property. Since each taxing agency determines its own property tax requirements and levies a separate rate (see Appendix A), tax rates in San Diego County vary widely (see Appendix B). For the 1977-78 Fiscal Year, there are 423 separate secured tax rates levied in the County. (There are more rates than taxing jurisdictions because some jurisdictions levy separate rates for bonded indebtedness and for special services provided to sub-areas within them.)

The 300 taxing agencies within the County in 1977-78 include:

1	County
13	Cities*
48	School Districts
238	Special Districts

* The City of Lemon Grove is not authorized to levy property tax in 1977-78.

Of the 238 non-school special districts, 102 are governed by independent local boards of directors, while the remaining 136 are governed by the Board of Supervisors sitting as the Board of Directors for each. Not all special districts authorized to levy property taxes actually do. For instance, neither the Unified Port District nor the Air Pollution Control District levy a property tax. Appendix B lists the number and type of special districts in the County.

The most numerous non-school special districts governed by independent boards are the 39 water and irrigation districts followed by 20 fire protection districts. The remaining include such districts as cemetery, community services, hospital, and redevelopment agencies.

Of those districts governed by the Board of Supervisors, 79 are County Service Areas, 33 are Highway Lighting and Lighting Maintenance Districts, 13 are Sanitation Districts, 7 are Flood Control Zones and Drainage Districts, and the remaining are one each Air Pollution Control District, County Library District, Public Utility District, and Recreation and Park District.

The 1977-78 San Diego County's total taxable assessed value on the secured property tax roll is $6,354,764,224. This translates into a market value of $25,419,056,000. On this base is collected $585,580,305 in secured property taxes for all taxing

agencies in the County. These taxes, which include requirements for debt service, represent an aggregate of 2.3% of the market value of taxable property in the County. (Of course, the percentage of market value varies among tax code areas.) For purposes of comparison, a $4.00 tax rate is the equivalent of 1% of market value. Therefore, 2.3% translates to a tax rate of $9.200*.

The total secured property taxes to be collected in the County in 1977-78 by type of agency is as follows: ($ in millions)

Type of Agency	Amount of Collected Secured Property Taxes	% of Total
County	$118.9	20.3%
Cities	65.7	11.2
Schools	358.2	61.2
Special Districts	42.7	7.3
Total	$585.5	100.0%

When the property taxes collected for payment of voter-approved bond indebtedness are deducted from this, the remaining secured tax collections that would be subject to the limitation contained in Jarvis/Gann are as follows: ($ in millions)

Type of Agency	Amount of Collected Secured Property Taxes	% of Total
County	$117.4	21.0%
Cities	61.8	11.0
Schools	339.8	60.7
Special Districts	40.6	7.3
Total	$559.6	100.0%

Role of Property Tax in County Financing

Secured property taxes finance approximately 21% of the County Government's budget. Revenues from property taxes are combined with other general revenues and used to fund the "net County cost" portion of County programs. The percentage of the total $232.6 million net County cost by function in 1977-78 is as follows:

*According to the Auditor and Controller the average tax rate in the County this year is $9.109, or 2.28% of market value

Function	% Net County Cost
Public Protection and Corrections	36%
Public Assistance	27%
Health Care	13%
Capital Program	8%
Home and Community Services and Recreation and Cultural	6%
Fiscal Administration and Intergovernmental Services	6%
Reserves, Debt Service and Other	4%
Total	100%

Assuming that property taxes make up a proportionate share of all net County costs, the taxes collected-in 1977-78 would be distributed among the various functions as follows:

Function	Amount of Property Tax ($ in Millions)
Public Protection and Corrections	$ 42.8
Public Assistance	32.1
Health Care	15.5
Capital Program	9.5
Home and Community Services and Recreation and Cultural	7.1
Fiscal Administration and Intergovernmental Services	7.1
Reserves, Debt Service and Other	4.8
Total	$118.9

Reduction in Property Taxes

The Jarvis/Gann Initiative would limit the taxing of real property to 1% of 1975-76 market value as determined by the Assessor. It allows for the re-assessment of the property to the then current market value when there is new construction or the property changes ownership. Assuming that 25% of the actual increase in value of the secured roll in 1976-77 and 1977-78 was due to new construction and further that 10% of the increase in these two years was due to changes in ownership, the adjusted value of the 1975-76 roll, allowing for the 2% annual increase in all other properties, would be $5.7 billion, or 86.8% of the 1977-78 secured assessment roll. Calculating maximum allowed taxes of 1% on this base results in total allowable tax revenues in 1977-78 under the Jarvis/Gann Initiative of $228.1 million. If these revenues were to be distributed proportionately among taxing agencies, the table below shows the amount of taxes and the loss from the actual amounts in 1977-78:

1977-78 PROPERTY TAX REVENUES
(In millions of $)

Type of Agency	1977-78 Collections	Jarvis/Gann Limit	Loss	% Loss
County	$117.4	$ 47.9	$ 69.6	59.24
Cities	61.8	25.1	36.6	59.24
Schools	339.8	138.5	201.3	59.24
Special Districts	40.6	16.6	24.0	59.24
Total	$559.6	$228.1	$331.5	59.24%

The preceding distribution assumes that legislation would be enacted to distribute the tax loss proportionately. One possible legislative alternative is to totally remove school finance from property taxation. If such were the case, the one percent property tax limit would initially allow the continuation of property tax financing for all other local taxing agencies at approximately the same level as present. However, the 2% limit on tax increases will not keep up with the inflation rate.

IV. ANALYSIS OF INITIATIVE PROVISIONS

This Section reviews some of the questions raised by provisions of the Jarvis/Gann Initiative.*

One Percent Limitation

Does the one percent limitation apply to the unsecured tax roll as well as the secured tax roll? The initiative as worded applies to "real property". Most of the assessed value on the unsecured roll is not real property. However, under existing law the tax rate on unsecured property is the rate applied to secured property in the previous year. If this law remains in effect after the passage of Jarvis/Gann, the unsecured rate would apparently be lowered to the $4.00 level in 1979-80.

Does the one percent limitation apply to personal property? As noted in Section II, the secured property tax roll includes both real and personal property. Under present laws, the same tax rate is applied to all property on the secured roll. If there is no change in the law, personal property would be subjected to the same 1% limitation. However, a separate procedure could be enacted to tax personal property at a separate rate.

Does the 1% limitation apply before or after the existing home-owners exemption is taken? Cal-Tax points out that determination of this question could make a significant difference in tax burden, particularly for a modest home. They cite as an example that a tax of 1% on a $15,000 home would yield $150.00. However, if the tax applies only after the $7,000 homeowners exemption, the tax would be reduced to $80.00 on the remaining $8,000 value. The answer to this question will depend on judicial interpretation or legislative action.

How would the County apportion revenue? The initiative reads: "The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties." This provision raises two questions: does use of the word "districts" infer that the counties and cities would not be eligible to receive property tax revenue? What is the law according to which the revenues would be distributed? Neither of these questions can be answered at this time. There are no statutory provisions for the distribution of property tax revenue by the County, except those noted in Appendix A wherein the Auditor and Controller distributes according to the amount of property tax revenue determined by each local board.

*This analysis draws upon analyses conducted by staff to the Assembly Revenue and Taxation Committee, Senate Office of Research, California Taxpayers' Association (Cal-Tax), and Orange County.

While existing bonded indebtedness is exempt, would future bonds be permitted? No, at least not as they have existed in the past. Since the initiative prohibits any further taxes on real property, a new method of funding bonds, such as a special sales tax, would need to be devised. Once a method is developed, it would be necessary to secure approval of 2/3 of the "qualified voters". Except in extreme cases this approval will be highly unlikely.

What effect will the 1% limitation have on redevelopment agencies and joint powers authorities? Under present State law, community redevelopment agencies are authorized to issue revenue bonds which are secured by increases in tax revenues resulting from increased assessed value within the redevelopment agency. This method, known as tax increment financing, need not be approved by the voters in advance. It can be assumed, then, that such bonds are not excluded from the 1% limitation and would be subject to reduced revenues in proportion to other property tax revenue reductions within the County.

The same question arises with respect to revenue bonds issued by joint powers authorities which are secured by a lease agreement by one or more of the signators to the authority.

These questions have been posed to County Counsel for further research and will be reported on in the next-report on Jarvis/ Gann.

Definition of Full Cash Value

How much of the present market value would be reduced to reflect the 1975-76 value? As noted in the earlier discussion of fiscal impact, the market value as reflected on the 1977-78 secured roll may be reduced as much as 14%. Since assumptions concerning new construction and change of ownership were used in that analysis, the actual reduction in the roll may be even greater when the Assessor goes back and adjusts the roll for each parcel in accordance with the Initiative.

What will be defined as "newly constructed" property? It is not clear whether the entire property would be revalued when an addition is made, or whether the assessment rolls would have to maintain the separate valuations of all improvements as they are added.

How will the 2% limitation on annual assessment increases affect declining neighborhoods? Since the Initiative provides for changes in the consumer price index not to exceed 2% as the only means of changing market value of properties which do not change ownership, it would appear that properties whose actual market value remains constant or decreases might be taxed at a value greater than market value.

Will the re-assessment due to change in ownership cause a shift of tax burdens to homeowners? Probably, because residential property changes ownership at a much greater rate than commercial and industrial.

According to Cal-Tax, residential property changes ownership on the average of once every seven years. When compounded by the present market forces which force home prices to rise faster than other values, this will cause a greater shift of tax burden to residential property.

Special Local Taxes

Does the requirement for a 2/3 vote of the "qualified electors" effectively eliminate any locally levied replacement revenues? Most likely yes. The Initiative does not define qualified electors. It would appear to mean registered voters. As noted earlier, except under extreme cases, it would appear unlikely that 67% of all registered voters would authorize any new local taxes.

V. INDIRECT EFFECTS

This Section notes some of the possible indirect effects which might result from the enactment of the Jarvis/Gann Initiative. Others may be identified as more analyses are done on the effect of the Initiative throughout the State.

Revenue Sharing and Matching Funds

The formula used by the Federal Government to allocate general revenue sharing to states and general purpose local governments within states includes relative tax effort. Relative tax effort is the degree of reliance of a government on its own tax sources compared with other governments. Since Jarvis/Gann will result in a much lower relative tax effort, there will probably be a reduction in general revenue sharing allocations, first to California, and then to its cities and counties. It is not possible to estimate this loss because of the complex allocation formula; the percentage loss in Federal Revenue Sharing would be more or less equal to the percentage loss of property tax revenue to local government.

The County has some programs in which the State and Federal Governments share the major portion of the cost. Many of these require that the County spend some local dollars in order to receive the Federal or State aid. For example in mental health, the State will grant nine dollars for every County dollar expended. If Jarvis/Gann is enacted and the County is required to reduce its property taxes, care must be taken in determining the programs and services to be cut back or eliminated in order to avoid losing even further funding for essential programs.

Federal and State Income Taxes

A reduction of property taxes will automatically increase Federal and State income tax collections. This will result from the loss of approximately 60% of the deduction for property taxes of those persons who now itemize deductions. Individual taxpayers will experience an increased State and Federal tax burden. The dollar amount of this increased tax revenue is not known at this time.

Bond Ratings

Those local governments who currently have voter approved bonds that have not yet been sold, may find that the rating of those bonds will suffer and may become unmarketable.

APPENDIX A

METHOD OF PROPERTY TAX DETERMINATION

Under the present system of taxation governed by State laws, the Assessor locates, identifies, and appraises at current market value, locally assessable property subject to ad valorem (according to value) taxes. The State Board of Equalization appraises all properties owned by public utilities in the County and reports these values to the County for inclusion on the "secured" and "unsecured" assessment rolls. Assessed value of property is defined by State law as 25% of the market value as determined by the Assessor. Property is classified as real property, which includes land and improvements upon the land, and personal property which includes such things as boats, machinery, business inventories held for sale, etc. Secured property is property which is secured by a deed of trust or other instrument sufficient in value to recover unpaid taxes, if necessary. Unsecured property has no such security and results in a personal liability if taxes become delinquent.

The assessed value of land, improvements, and personal property as of March 1st of each year is entered on the secured assessment roll and unsecured assessment roll. This information is reported to the County Auditor and Controller who segregates the values by tax code area. Each tax code area, of which there are more than 2,000 in San Diego County, represents an area in which all taxpayers pay property taxes at the same rate to the same local taxing jurisdictions.

At the same time the Assessor reports the values on the secured and unsecured assessment rolls to the Auditor and Controller, the assessed valuation for each taxing agency is reported to that agency.

In the meantime, each of the taxing agencies has been determining its budget requirements for the following fiscal year. Each agency follows its own method of budget formulation within the overall requirements of State law. When each agency has determined its level of property tax financing for the fiscal year, its governing body adopts a resolution which directs the County Auditor and Controller to cause to be collected those taxes. The Auditor and Controller then determines the tax rate required to be levied by each agency by dividing the tax requirement by every one hundred dollars of assessed valuation on the secured roll. All of these rates are compiled by the Auditor and Controller in the form of a resolution for adoption

by the County Board of Supervisors. The resolution directs the Tax Collector to issue tax bills to the owners of real property as contained on the secured assessment roll. The tax bills include the taxes for every local agency which levies a tax on the property. Taxes are paid to the County Tax Collector generally in two installments, one in December and one in April, who deposits the tax collections with the Auditor and Controller. The Auditor and Controller then distributes the taxes to each of the taxing agencies.

Unsecured property taxes are levied at the rate of the prior year's secured property tax. These taxes are also billed and collected by the Tax Collector and deposited with the Auditor and Controller for distribution to each of the taxing jurisdictions.

APPENDIX B

NON-SCHOOL TAXING AGENCIES GOVERNED BY LOCAL BOARDS AT JULY 1, 1977

NUMBER	TYPE OF DISTRICT	1977-78 TAX RATE RANGE
5	Cemetary Districts	.015 - .061
6	Community Services Districts	.054 - 1.150
20	Fire Protection Districts	.000 - 2.272
4	Hospital Districts	.114 - .212
6	Irrigation	0 - .680
2	Lighting Maintenance Districts	- .160
1	Mosquito Abatement District	.118
1	Parking District	.500
1	Port District	0
2	Public Utility Districts	0 - .245
1	Recreation and Park District	.432
7	Redevelopment Agencies	N/A
5	Resource Conservation Districts	.002 - .012
2	Sanitary Districts	0 - .325
2	Sanitation Districts	0 - 0
2	Sewer Districts Imp Bch Main No.1	.217 - 1.085
1	Small Craft Harbor District	.061
7	California Water Districts	0 - 1.327
7	County Water Districts	0 - 3.896
2	Miscallaneous Water Districts	0 - .870
17	Municipal Water Districts	0 - 4.400
101	Total	

TAXING AGENCIES GOVERNED BY BOARD OF SUPERVISORS AT JULY 1, 1977

NUMBER	TYPE OF DISTRICT	1977-78 TAX RATE RANGE
1	Air Pollution Control District	N/A
1	County Drainage District	.055
79	County Service Areas	0 - 5.457
6	Flood Control District Zones	0 - .165
17	Highway Lighting Districts	0 - .303
1	County Library	.135
16	Lighting Maintenance Districts	0 - .623
1	Public Utility District	0
1	Recreation and Park District	.188
13	Sanitation Districts	0 - .313
136	Total	

SCHOOL DISTRICTS AT JULY 1, 1977

NUMBER	TYPE	1977-78 TAX RATE RANGE
27	Elementary	.473 - 2.119
10	Unified School	2.898 - 4.941
6	High School	.990 - 2.527
5	Community College	.490 - .957
48	Total	

IMPACT ON LOCAL GOVERNMENTS IN SAN DIEGO COUNTY OF PROPOSITION 13, THE JARVIS-GANN INITIATIVE

FEBRUARY 17, 1978

AN INFORMATION REPORT TO

THE SAN DIEGO COUNTY

BOARD OF SUPERVISORS

PREPARED BY:

POLICY ANALYSIS SECTION
POLICY AND MANAGEMENT DIVISION
OFFICE OF MANAGEMENT AND BUDGET

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Impact on Local Governments in San Diego County of Proposition 13, the Jarvis-Gann Initiative

EXECUTIVE SUMMARY

The enclosed report, prepared at the direction of the San Diego County Board of Supervisors, contains four sections.

Section I	-	Introduction
Section II	-	Scenarios
Section III	-	Impact of Proposition 13 on San Diego County government
Section IV	-	Impact of Proposition 13 on other local governments in San Diego County

The major content of Sections II, III and IV are as follows:

- Section II presents alternative scenarios relating to Proposition 13. The first part of this section briefly discusses the major pieces of legislation which are now being considered to provide homeowner and renter property tax relief. This discussion concludes that if a major tax relief bill is enacted prior to the end of March, its passage could tip the scale against Proposition 13's passage in June.

  The second part of Section II presents four possible legislative scenarios following the passage of Proposition 13. These are:

  1. Legislature removes all public education from property tax financing and increases state sales and income taxes.

  2. Legislature removes all non-property services (health, education, welfare and courts) from property tax financing, increases state sales and income taxes and authorizes local income taxes or state revenue sharing.

  3. Legislature enacts laws apportioning property tax losses proportionately according to 1977-78 taxes.

  4. Legislature does nothing.

  Staff considers scenario #3 the most likely in the immediate wake of passage of Proposition 13.

- Section III discusses possible County service reductions amounting to a total $58.2 million in property tax support. This amount is based upon the assumption that scenario #3, apportioning the property tax reduction proportionately

among all taxing agencies according to the 1977-78 taxes, would be realized. This section is illustrative of the reductions that would be necessary and is neither a recommendation nor a forecast of those reductions. Those reductions would be achieved through service reductions amounting to $46.7 million, capital program reductions of $6.25 million and a reallocation of other financing means of $5.2 million. The service reductions and their potential effect are briefly discussed within agency grouping. The reductions by agency in property tax support would be:

Human Resources	$17.4 million
Fiscal & Justice	12.5 million
Health Care	3.1 million
Community Services	8.2 million
General Administration	5.5 million
Total	$46.7 million

- Section IV summarizes the responses the County has received from various local taxing jurisdictions on the effect of Proposition 13 on their finances and operations. Noted in this section are the actions which these governments believe will be necessary to cope with a reduced level of property tax financing. Cities have generally indicated a mixed strategy, including elimination or reduction of some services and increases in other available revenues. The more common reductions or eliminations in cities are capital projects, park acquisition, recreation services, and contributions to charitable or cultural organizations. All cities indicated that there would be additional services reduced or eliminated, but these varied among the different cities.

  School districts indicated that a proportionate reduction of 60% of their property tax financing would significantly affect their operations. A reduction of this magnitude would require major adjustments in basic education, such as increasing class sizes, limiting subjects and limiting length of school days.

  Of the special districts in the County, fire districts indicated the most serious problems from the property tax reductions. With few exceptions, fire districts rely solely on the property tax for their financing. Any reduction in this source of revenue will require a reduction in fire districts' operations.

  Other special districts will be affected to varying degrees, depending on the alternative revenue sources now authorized by State law.

Finally, Appendix A contains a County Counsel discussion of the legal issues concerning Proposition 13.

1. INTRODUCTION

On December 23, 1977, the California Secretary of State verified that a citizens' initiative sponsored by Howard Jarvis and Paul Gann had qualified for the June 6, 1978 ballot. The Jarvis-Gann Initiative, which will appear as Proposition 13, has 9 key provisions:

- Limits ad valorem property taxes of all real property to one percent (1%) of the full cash value of the property.
- Exempts existing voter approved bonded indebtedness from the 1% limitation.
- Defines "full cash value" as the Assessor's appraised value of real property as of March 1, 1975, adjusted by changes in the Consumer Price Index - not to exceed 2% per year.
- Permits establishment of a new "full cash value" when there is new construction or a change in ownership.
- Permits the reassessment, up to the March 1, 1975 value, of property which was not current on the 1975-76 assessment roll.
- Requires counties to collect the 1% property tax and to "apportion it according to law to the districts within the counties".
- Prohibits new ad valorem taxes on real property, or sales taxes, or transaction taxes, on the sales of real property.
- Permits the imposition of special taxes by local agencies, other than those prohibited, by a two-thirds (2/3) vote of the "qualified electors" of such agencies.
- Requires a two-thirds (2/3) vote of all members of both houses of the Legislature for any changes in State taxes which would result in increased revenues.

On January 3, 1978 the San Diego County Board of Supervisors directed staff to prepare a fiscal analysis of the potential effect of the initiative on local governments in San Diego County. A preliminary analysis of the initiative's effect was published by the Office of Management and Budget on January 23, 1978. That analysis estimated that governments and special districts in San Diego County would have collected approximately $331.5 million less in property taxes this year if Jarvis-Gann had been in effect during the 1977-78 fiscal year, a 59.24% reduction.

The January report also noted several uncertainties created by the initiative. Those uncertainties remain as of this writing, and new ones have emerged as the initiative receives closer public scrutiny.* This report describes some scenarios of State actions that may occur before and after the June 6 election, and discusses the potential effect on services of the government agencies in the County if the voters approve Proposition 13.

A separate report to the Board of Supervisors discussing the legal issues involved in Proposition 13 prepared by County Counsel is contained in Appendix A. The resolution of the legal issues identified in that report will influence the subsequent actions of the Legislature and local governments and will affect the scenarios presented in Section II.

As the section on scenarios illustrates the range of possible occurrences is broad, this makes contingency planning for Jarvis-Gann especially difficult. The discussion in Sections III and IV of the effect on Government Services, should therefore be considered illustrative of what could occur under certain circumstances.

Section III, which discusses County service reductions, represents the present views of the Chief Administrative Officer and agency administrators on how the County might accommodate a 60% reduction in property tax revenues with the least adverse effect. It is neither a recommendation nor a forecast.

Many local governmental agencies cooperated with this project by providing the information summarized in Section IV. Appendix B is a list of those agencies. The County appreciates their contribution.

A number of concerns and differing interpretations of the initiative's effect on property tax financing have come to our attention since the publication of the preliminary analysis. These are noted in Appendix C.

* Some of these issues are discussed in the report by County Counsel on certain legal aspects of Jarvis-Gann (which is contained in Appendix A.)

II. SCENARIOS

The California Legislature has considered several versions of significant tax reform and property tax relief for the past three years. At the conclusion of the 1975-76 session a major tax reform bill authored by Senator Peter Behr was nearly adopted.

In the first half of the 1977-78 Biennial session there were hundreds of bills introduced providing various forms and degrees of property tax relief. However, at the close of the first half of that session in September 1977, the only significant measures enacted were a property tax deferral program for senior citizens and a constitutional amendment (which will appear on the June 6 primary ballot as Proposition 8) to provide for the taxing of owner-occupied dwellings at a rate lower than levied on other property. Again, the last days of the first half of the 1977-78 session saw a major property tax relief bill, this one authored by Senator Nicholas Petris, nearly adopted.

By the time the legislators returned in January for the second half of the 1977-78 session, the Jarvis/Gann Initiative had qualified for the June 1978 primary election ballot. This spurred a renewed effort of the legislators to enact a property tax relief bill to provide significant homeowner and renter relief and, possibly, head off voter approval of the Jarvis/Gann Initiative. The Governor called an extraordinary session of the Legislature to run concurrently with the regular session to consider property tax relief. (This is a parliamentary move designed to expedite the consideration of tax bills by lowering the vote requirement from two-thirds to a simple majority for adoption of any legislation introduced in the special session.)

As of the writing of this report, there are four special session bills which appear to have support within the Legislature. Two of these bills, SB6X and SB10X, provide for homeowner and renter relief. The other two, AB7X and SB7X, provide for business inventory tax relief.

At the same time as the special session bills have been introduced and considered by the respective legislative policy committees, a regular session bill, SB1 by Peter Behr, has emerged from the Senate and is now being considered by the Assembly Revenue and Taxation Committee.

If any of these bills providing homeowner and renter property tax relief were enacted soon, the likelihood of the voters approving the Jarvis/Gann Initiative would diminish. There have been many public statements of support for the Initiative unless the Legislature acts to pass some form of significant tax relief.

Before June 6: Possible Legislative Actions

Proposition 13 will reduce property taxes on all real property to 1% of the market value as appraised in 1975-76. Since the statewide average is now approximately 2.8%, this will be a reduction of

approximately 64% in statewide property taxes. In San Diego County in 1977-78, the average property taxes were equal to approximately 2.3% of the appraised value of real property. The average percent on owner-occupied property is closer to 2.0% due to the $7,000 homeowner exemption. Since the Initiative rolls back the appraised value to the 1975-76 level, the estimated limitation is only 0.87% of the 1977-78 appraised value.

In contrast, the three major bills now under consideration will reduce property taxes on owner-occupied dwellings by up to 1.92%. The chart on the following page shows the percentage of the 1977-78 market value of owner-occupied dwellings in San Diego County that would be paid in property taxes under each of the three major tax relief bills under consideration. Note that a principal difference between the relief provided in these bills and the relief provided by Proposition 13 is that each of these bills targets relief directly to homeowners and renters and does not affect property taxes on other than owner-occupied dwellings. Jarvis/Gann would limit property taxes on all real property regardless of use. The renter relief provided in each of the three bills is paid directly to renters in the form of an income tax credit. Proposition 13 would only provide renter relief if landlords pass the tax savings on to tenants through lower rents. There is no legal requirement in the Initiative that this be done.

In addition, each of the three bills before the Legislature provides additional property tax relief benefits for disabled persons and those 62 years old and older. Proposition 13 has no such senior citizen or disabled benefits.

Estimates are that owner-occupied dwellings account for between 35 and 40 percent of the assessed value of real property in the State. Proposition 13 is estimated to result in $7-8 billion in property tax reduction statewide. Using these estimated ranges, homeowners would be expected to receive direct tax relief benefits from the Initiative of between $2.45 billion and $3.2 billion.

The three tax relief measures are estimated to provide benefits to homeowners in 1978-79 ranging from $831 million for SB6X to $2.1 billion for SB1. In addition, these measures provide benefits directly to renters ranging from $165 million in SB6X to $213 million in SB10X.

A major difference between these measures and Proposition 13 is that these measures provide for reimbursement to local governments for the revenues lost by the property tax reductions, while Proposition 13 provides no replacement revenue.

At the present time it appears that the measure under consideration most likely to be adopted is Senate Bill 1 by Senator Behr. This measure is now before the Assembly Committee on Revenue and Taxation

COMPARISON OF THE PERCENTAGE OF APPRAISED MARKET

VALUE OF OWNER-OCCUPIED DWELLINGS OF PERSONS UNDER 62 TO BE PAID IN PROPERTY

TAXES UNDER VARIOUS TAX RELIEF PLANS IN SAN DIEGO COUNTY IN 1977-78

HOME VALUE		$20,000				$35,000				$50,000				$65,000			
CURRENT % TAX		1.48%				1.82%				1.96%				2.03%			
RELIEF PLAN		SBI* Behr	SB6X Rodda	SB10X Roberti	Jarvis/ Gann	SBI* Behr	SB6X Rodda	SB10X Roberti	Jarvis/ Gann	SBI* Behr	SB6X Rodda	SB10X Roberti	Jarvis/ Gann	SBI* Behr	SB6X Rodda	SB10X Roberti	Jarvis/ Gann
HOUSEHOLD INCOME	5,000	.89%	0.73%	0.36%	0.87%	1.09%	1.39%	0.38%	0.87%	1.18%	1.66%	0.39%	0.87%	1.27%	1.80%	0.39%	0.87%
	10,000	.89%	0.73%	0.85%	0.87%	1.09%	1.39%	1.03%	0.87%	1.18%	1.66%	1.00%	0.87%	1.27%	1.80%	0.98%	0.87%
	15,000	.89%	0.73%	0.85%	0.87%	1.09%	1.39%	1.29%	0.87%	1.18%	1.66%	1.18%	0.87%	1.27%	1.80%	1.12%	0.87%
	20,000	.89%	0.73%	0.85%	0.87%	1.09%	1.39%	1.46%	0.87%	1.18%	1.66%	1.36%	0.87%	1.27%	1.80%	1.26%	0.87%
	25,000	.89%	0.73%	0.85%	0.87%	1.09%	1.39%	1.46%	0.87%	1.18%	1.66%	1.55%	0.87%	1.27%	1.80%	1.43%	0.87%
	30,000	.89%	0.73%	0.85%	0.87%	1.09%	1.39%	1.46%	0.87%	1.18%	1.66%	1.70%	0.87%	1.27%	1.80%	1.58%	0.87%
	35,000	.89%	0.73%	0.85%	0.87%	1.09%	1.39%	1.46%	0.87%	1.18%	1.66%	1.70%	0.87%	1.27%	1.80%	1.82%	0.87%
	40,000	.89%	0.73%	0.85%	0.87%	1.09%	1.39%	1.46%	0.87%	1.18%	1.66%	1.70%	0.87%	1.27%	1.80%	1.84%	0.87%
	45,000	.89%	0.73%	0.85%	0.87%	1.09%	1.39%	1.46%	0.87%	1.18%	1.66%	1.70%	0.87%	1.27%	1.80%	1.84%	0.87%
	50,000	.89%	0.73%	0.85%	0.87%	1.09%	1.39%	1.46%	0.87%	1.18%	1.66%	1.70%	0.87%	1.27%	1.80%	1.84%	0.87%
	75,000	.89%	0.73%	0.85%	0.87%	1.09%	1.39%	1.46%	0.87%	1.18%	1.66%	1.70%	0.87%	1.27%	1.80%	1.84%	0.87%

* As of 2/15/78 Amendment

where it was given three hearings in the past two weeks. It is scheduled for a Committee vote on February 17. If the Committee gives the bill a "do pass" at that time, it is conceivable the bill could be enacted before the end of February or soon thereafter. If the bill were enacted prior to the end of March, the publicity surrounding its passage could tip the scale against Proposition 13 in June.

A second pre-June 6 scenario has the Legislature not enacting a major tax relief bill. This is a worst case scenario, but is not beyond the realm of possibility. This scenario would heighten the probability of Proposition 13 approval.

After Proposition 13 Passes

For purposes of this analysis we have identified four alternative actions by the Legislature that could follow the passage of the Jarvis/Gann Initiative. There is also a fifth alternative which does not involve the Legislature.

That one is a challenge of the Initiative through the Courts on constitutional grounds. County Counsel has provided a separate analysis (Appendix A) which raises the legal issues involved and presents some of the potential constitutional challenges available.

The four legislative actions are:

1. Legislature removes all public education from property tax financing and increases state sales and income taxes.

2. Legislature removes all non-property services (health, education, welfare and courts) from property tax financing, increases state sales and income taxes and authorizes local income taxes or state revenue sharing.

3. Legislature enacts laws apportioning property tax losses proportionately according to 1977-78 taxes.

4. Legislature does nothing.

If Proposition 13 is successful, county staff considers Scenario #3 most likely in the immediate wake of passage. Scenarios #1 and #2 are possible long term actions, with #1 appearing to be the most likely. Finally, Scenario #4 is a "worst case" and, at this point, is considered least likely.

1. Legislature removes public education from property tax financing and increases state sales and income taxes. This scenario is based upon the provisions of Article XVI Section 8 of the State Constitution which reads:

"From all State revenues there shall first be set apart the monies to be applied by the State for support of the public school system and public institutions of higher education."

Assuming that this section is interpreted to require the Legislature to provide for the ongoing finance of public education, the State would have to increase its financing at least to the level of reduced property tax revenues. If the Legislature determines to go a step further and increase State support to provide for the complete buyout of property tax financing of education, it would require that the State increase its support by approximately $6 billion statewide. In San Diego County, it would require approximately $340 million to replace total property taxes financing education (excluding debt service). These funds are used to finance the following types of school districts in the County.

Type District	($ in Millions) 1977-78 Property Taxes
Elementary	$ 40.8
Unified	163.7
High School	52.5
Community College	43.9
Other School Purposes	39.0
TOTAL	$339.8*

For the State to be able to finance this property tax buyout there would have to be an increase in certain statewide revenues. The highest yield State revenue is the sales and use tax which, at its present State rate of 4-3/4%, is expected to yield $5.52 billion in 1978-79.** To finance the increase for education of $6 billion would require an increase in the State sales and use tax rate to 9.91%. Added to the local sales and use tax rate and the local transit tax rate, this would total 11.16%.

The next highest yield State tax is the personal income tax which is expected to yield $5.50 billion in 1978-79.** If the personal income tax were to be used to finance the total property tax buyout of education, it would require a surcharge of approximately 110%.

*Does not add because of rounding.
**Governor's Budget, 1978-79, p. A-68.

A combination of the two sources would, of course, require lower rates for both.

The problem with this scenario, as with the next, is that it would require the Legislature to enact increased taxes. Under Section 3 of Proposition 13 any increase in taxes requires a 2/3 vote of both houses of the Legislature. The probability of legislative action by such majorities in 1978 appears low. However, public education will be among the hardest hit by a reduction of property taxes.

2. Legislature removes all non-property services from property tax financing, increases State sales and income taxes or authorizes local income taxes or State revenue sharing. Some of the literature published by the proponents of the Jarvis/Gann Initiative indicates that the Initiative's intent is to limit the property tax to the financing of property-related services only.*

It was not possible to gather the estimate of the statewide costs of non-property services for this report. However, we have estimated the cost of non-property services financed by the property tax in San Diego County. We have used general definitions for non-property services; defining health services as those contained in the Health Care function of the County program budget, welfare services as those contained in the Public Assistance function in the County budget, court services as those contained in the Judicial, Detention and Correction services in the Public Protection and Correction Services function of the program budget, and education as the amounts shown previously in this report. The estimated total local cost of each of these categories financed by property taxes in 1977-78 in San Diego County is as follows:

Services	($ in Millions) 1977-78 Property Taxes
Health	$ 15.0**
Welfare	29.6**
Courts	33.0
Education	339.8
Total	$417.4

This total amounts to approximately 75% of total property taxes collected in the County in the current year, excluding bonded indebtedness. Assuming the average tax rate of $9.109, there would be a reduction of $6.832 to a tax rate of $2.277 if these services were removed from property tax financing.

*United Organization of Taxpayers, "Many Years of Tax Research in 30 Minutes of Reading."
People's Advocate, Inc., "Position Paper for Jarvis/Gann Initiative."
**Represents 48% of net County cost which is amount financed by property tax.

If the State were to replace the property tax revenue loss with the sales and use tax for these services, we estimate it would require an increase in the State sales and use tax rate to 11.09% which, when added to the local and transit sales and use tax, would total a rate of 12.34%. This is probably a conservative estimate, as it is based on the assumption that the health, welfare, and court costs in San Diego County are in the same proportion to the statewide costs for these services as the education costs are to the statewide education total.

If these costs were to be borne by the income tax, there would need to be a 134% surcharge on the State personal income tax.

Another alternative within this basic scenario would be for the Legislature to authorize the counties to impose a local income tax to finance these non-property services. Under the provisions of the initiative, though, such a tax would require a 2/3 vote of the "qualified electors." There is a question with regard to the definition of the term. If liberally construed it could mean 2/3rds of all persons 18 years or older who have lived in the State for at least 29 days prior to the election, whether registered to vote or not. If this definition is applied, the probability of any special tax being enacted is virtually nil.

The final alternative within this scenario is for the State to enact some form of revenue sharing with the counties which would be similar to the Federal General Revenue Sharing program. Such a program could be based upon a formula using population, tax effort, personal income, unemployment, and similar factors to determine the relative distribution of monies among the counties. Counties would then be required to adjust their service levels for these programs to fit within the overall revenues available.

Such a revenue sharing program would require considerable changes in existing State laws to allow counties greater discretion in the level of presently mandated programs which they administer. The Legislature would probably be reluctant to relinquish that great a degree of control to counties.

3. Legislature enacts law apportioning tax revenues among taxing jurisdictions in proportion to the relative 1977-78 tax levies. If such a law were to be enacted, the Treasurer-Tax Collector would collect the 1% tax from each taxable parcel. The County Auditor and Controller would calculate the ratio of taxes by jurisdiction collected in each of the more than 2,000 tax code areas in the County. That ratio would then be applied against the total taxes collected from the 1% levy in each of the tax code areas. The amount attributable to each of the taxing jurisdictions from each of the tax code areas would be totaled and distributed by the Auditor and Controller.

One problem in this scenario is the schedule for preparing and adopting local governmental budgets. Under this scenario,

budgets would have to be adopted prior to knowing the amount of property tax revenue that would be made available to the agency.

Most agencies will have great difficulty preparing budgets of such a reduced nature in time to comply with the statutory deadlines now in existence for budget adoption.

The reductions in property tax financing that would occur under this scenario would lead to considerable confusion on the part of local governments. They would need to identify what services would be reduced to cope with the reduced financing. Layoff lists of employees would have to be prepared. In the case of counties, certain State and Federally mandated programs may be affected, thereby placing counties in violation of State or Federal law.

School Districts would face a unique problem. Under present State laws, districts must notify classified employees by mid-March if they may be subject to layoff in the next school year. Certificated employees (teachers) must be notified by mid-May of pending layoffs. If such notification is not given, districts would be in violation of existing law if they were to lay off employees to cope with reduced funding.

4. Legislature does nothing. This scenario is a worst-case situation. The entire system of financing local government is dependent on State law. If the Legislature were not to act after passage of Proposition 13, local governments, would in all likelihood, not be able to rely on any property taxes for financing. Without property taxes many special districts, such as fire districts and county service areas, could be forced to cease operation. Other local governments, such as cities and counties, would be cut back between 25% to 50% or more of their operations. Schools would have the option of operating for part of the year at full capacity and then shutting down or of going on a minimum schedule with greatly increased class size and reduced personnel and support services attempting to stay open all year.

III. IMPACT OF PROPOSITION 13 ON COUNTY GOVERNMENT

This section examines the potential impact on San Diego County government financing and services if Proposition 13 passes and the tax reduction is apportioned among all taxing jurisdictions in proportion to their 1977-78 property tax collections.

Utilizing the 1977-78 Budget, tentative service level impacts due to Proposition 13 have been identified. These are noted in the following detail by Agency. It should be noted that these impacts provide a demonstration approach to substantially reduced property tax support. No attempt has been made at this time to assign priorities among service level reductions.

These program reductions and funding modifications presume that normal increases in general revenues (Sales Tax, Motor Vehicle In-Lieu, etc.) will cover mandated increases such as Welfare, MediCal, etc. All other program costs in 1978-79 would be retained at current net cost levels. Capital projects will be deferred for at least one year, and the year end fund balance will be about $27,000,000.

The criteria utilized to arrive at the identification of potential reductions included the assignment of high priority to the retention of services that are mandated, services which have a high ratio of federal and/or state contributions (i.e. Short-Doyle), services which have a significant benefit to the local economy, services with a large clientele and those with a low unit cost.

Identified as generally lower priorities subject to reduction or elimination were services where other providers are available, expenditures that are one-time in nature, services with high unit cost, administrative support services, services which are totally local funded and services which are provided above mandated levels.

A reduction of $58 million from the 1977-78 secured property tax levy of $109.9 million was calculated as being necessary to bring the County's 1978-79 property tax financing in line with Proposition 13's limitation. To achieve this level of reduction, there were identified reductions in services of $46.7 million, reductions from the present level of capital program of $6.25 million and changes in financing means of $5.2 million.

The table below summarizes by County agency the comparison of property tax financing with and without the property tax limitation of Proposition 13.

SUMMARY TABLE*

($ IN MILLIONS)

Agency	w/o Prop 13		with Prop 13		% Reduction In Tax Financing
	77-78 Total Budget	77-78 Prop.Tax Financing	77-78 Total Budget	77-78 Prop.Tax Financing	
HR	$222.8	$29.5	$198.2	$12.1	-59%
HCA	59.2	13.2	56.1	10.1	-23%
F&J	70.0	25.0	57.5	12.5	-50%
CSA	50.2	16.7	41.9	8.5	-49%
GA	30.3	9.3	24.7	3.8	-59%
Total	$432.5	$93.7	$366.9	$47.0	-50%
Capital	42.1	7.5	35.8	1.2	-84%

* Excludes Debt Service, Reserves, and Special Funds

CHANGES IN FINANCING

- Revenue Sharing Originally Designated for Capital	$ 8,500,000
- Full Cost Fees for Solid Waste	300,000
- Revenue Sharing/Countercyclical Shortage for Operations	(-3,600,000)
Total Funding Changes	$ 5,200,000
Total Program Reductions	52,994,000
Total Achievement	$58,194,000

These reductions would also entail a reduction of in excess of 2100 staff-years. The last part of this section discusses current layoff procedures and the County's unemployment insurance liability.

HUMAN RESOURCES

Services provided by the Human Resources Agency would be reduced by a total cost of $21.0 million for a reduction in property tax financing of $13.9 million. This reduction would require the reduction of 911 staff years from the present staffing level. The principal Service impact of these reductions would be as follows:

Agency and Department Administration and Support - Support activities will be substantially reduced with a 50% reduction in agency

management support, a 33% reduction in Welfare Department overhead and a 25% reduction in Probation Department overhead.

General Relief - Accept only recipients who are 55 years or over.

Social Services - Increase caseload per worker by 60%; delay in case servicing.

Probation Court Support and Supervision - Services would be reduced by 25%; longer waiting period for court cases; less supervision of probationers.

Work Incentive, General Relief Employment, Boarding Home Financing, Care of Court Wards and Supplemental Aid - These services would be eliminated with the result of lessened efforts to self-sufficiency, lowering standards at boarding homes, and eliminating provision for any unusual needs not covered under aid programs.

AFDC - Increase caseload per worker by 50% resulting in less quality control, higher error rate, longer processing times, increased client complaints and worker dissatisfaction.

Institutional Adult Correction - Close 3 honor camps and work furlough center with resultant increase in population at other camps.

Institutional Juvenile Corrections - Girls would be retained at Juvenile Hall and Rancho del Rayo would be closed resulting in inadequate facilities for girls and an increase in the population at Rancho del Campo.

Other services which would be eliminated are:

Own Recognizance Unit - With no probation reports prior to OR determination there will be less OR releases or longer stays in jail.

Juvenile Court Unit - Probation officers will have to appear in court reducing supervision time.

Juvenile Work Project - Human Relations Commission - Elimination of financial support will lead to cessation of commission activities.

FISCAL AND JUSTICE

The programs of the Fiscal & Justice Agency would be reduced by approximately $12.5 million from the 1977-78 budget of $69.0 million. This reduction can be roughly translated into 618 staff years or, approximately 20% of current staffing levels. The service impact of the reduction would be as follows:

Agency Administration - The 50% reduction will limit the Agency's ability to respond to Board referrals and develop reports. Staff support to citizen committees will be eliminated. Limit the Agency's capacity to review and analyze legislation.

Police Protection - A 28% reduction will impair the County's ability to preserve the peace and protect the lives of the citizens of San Diego County. Team policing county-wide, rural ambulance services, hospital guards, resident deputies, aviation unit and half of the scientific investigation activities will be eliminated.

Judicial - A 15% reduction will affect the courts' ability to adjudicate criminal, civil, traffic and juvenile matters. The principal results will be delays in acceptance of filings and an increased backlog of cases awaiting trial.

The capacity to review civil and criminal processes of the courts will be reduced.

Reduce by 28% investigative and prosecutorial efforts in fraud, anti-trust, organized crime and election law enforcement. Diminish capacity to let and monitor contracts for legal defense services.

Detention - Eliminate Jail health care services, the Vista Jail and Las Colinas Detention facility.

Other Public Protection - Reduce by 28% the Public Administrator's ability to provide management of the fiscal affairs of the incompetent or incapacitated persons, and uncared estates. Reduce by 28% the Coronor's ability to investigate the source of deaths in unusual circumstances.

Property Assessment - Reduce by 28% the capacity to appraise taxable real and personal property and maintain an accurate assessment roll.

Tax Collection - Reduce by 28% the efforts in property tax collection for all local governmental agencies within the County. The effect of reduction would be loss of revenue on unpaid accounts; additional penalty charges to taxpayers due to delay in providing information; delays in tax payment refunds; and loss of interest revenue due to delayed deposits.

Treasurer - Reduce by 28% activities related to custody and investment of monies deposited. Result would be loss of internal revenue from earnings and deposits. Delay processing of County warrants.

HEALTH CARE

The services provided by the Health Care Agency would be reduced by a total cost of $3.1 million with an equal reduction in property tax. Approximately 75 staff years may be associated with this reduction. The principal service areas impacted by these reductions would be as follows:

Health Care Agency - Office Administrative support, response to the Board of Supervisors, CAO, Departments, etc. would be reduced by nearly 45% and these services would either be delayed or not performed.

Probation Psychological Services - There will be an overall delay in responding to Court and Probation requested psychological diagnosis, treatment and guidance services.

DMI-CMH - Requested Service - The pharmacy, laundry, utility, etc. services provided by CMH to other Departments such as Probation, Edgemoor, University Hospital, etc. will be reduced by approximately 75%.

Maternal Health and Child Health - A 6 to 8% reduction in service will result in patient delays and/or less numbers of people served in prenatal, family planning, child care counseling and nutritional guidance activities.

Crippled Children Services - Overall services to the physically handicapped children will be reduced by approximately 8%. Services will be provided to fewer clients on a less frequent basis.

General Health Services - Health education and Public Health nursing assistance in preventing and overcoming general health problems will be reduced by some 22%. As a result high risk groups (low income, minority, senior citizens, etc.) will have a higher incidence of health related problems that will go unresolved.

Community Disease Control - The prevention and control of communicable diseases will be reduced by 16% throughout the County. The potential is that communicable diseases could threaten or actually infect a greater percentage of San Diego County residents each year.

Comprehensive Health Care Project - This program would be cut back 22% and result in an equivalent decrease in service to Southeast San Diego residents.

Environmental Health Protection - Such services as regulation of food handling establishments, small water systems, noise control, septic tanks, vector control, etc., would be cut back by 9%. There would be a delay in responding to citizen complaints and only the more initial complaints would be handled. Periodic inspections of restaurants, dairies, etc., woule be done on an infrequent basis.

Edgemoor Geriatric Hospital - Service to patients would be reduced some 5% and there might be a requirement to reduce the number of beds by up to 10%.

Drug - Services to clients would be reduced by 17%. Fewer clients will be seen and fewer services will be provided to existing clients in outpatient and residential care.

COMMUNITY SERVICES

Services provided by the Community Services Agency would be reduced by $8.2 million. This reduction could require the elimination of up to 345 staff years from the present staffing level. The principal effects of these reductions would be as follows:

Community Services Agency Office - The Agency coordination effort provided by the Administrator's office will be reduced by 50%. The coordination of departmental efforts as well as staff assistance to the department, CAO, and Board of Supervisors will be reduced because of the severe reduction of staff.

The Farm Advisor and Government Reference Library would be eliminated. Elimination of the Farm Advisor would result in the withdrawal of University of California agricultural program support and effectively eliminate such programs as 4H and the nutrition and home economics education program for low income families. Elimination of the Governmental Reference Library would remove access to the Governmental Technical Library maintained by the County.

The Department of Transportation - reduce Engineering services and support to Special Districts. These reductions would eliminate such activities as Vapor Recovery and Grading Ordinance Enforcement. There would also be land use impacts in terms of elimination of DOT participation in environmental impact reviews, termination of a program to develop coordinated standards for construction, and increased time for land development map and plan reviews.

Traffic Safety Education and the grant to the Safety Council would also be eliminated. Staff assigned to transit coordination within county as well as at the regional and state levels would be eliminated, as would the County-wide carpool program. Support for County Service Area Formation/Annexation would be ended, precluding formation of CSA's to provide residents with city-like services. Staff assistance in the formation of Assessment Act Districts would be withdrawn, precluding the formation of districts to provide major capital improvements in the area.

The Real Property Department - reduce its efforts on the part of other County departments. Property leasing and property management efforts would be reduced by 30%, resulting in delays in finding property, negotiating agreements and on-going management of County-owned property. Land acquisition efforts for the County would be reduced by 50%.

The Department of Sanitation and Flood Control - reduce both flood control and solid waste programs. In flood control, assuming equal reductions in each flood control zone, it would be necessary to terminate all construction activities but retain the existing operations. In solid waste, disposal fees charged to users would be increased by approximately 100% to sustain current operations.

The Department of Land Use and Environmental Regulation - substantially reduce efforts to update zoning plans. This will delay action on zoning implementation to conform to the General Plan, preparation of ordinances, and staff analysis for policy making bodies.

The Zoning Administrator - reduce program approximately 30%, resulting in delays in processing time and reduced quality of staff analysis of requests.

Support to other County departments by General Services - reduced significantly in some areas. Some specific impacts would be in: a 15% reduction in telephone service to all departments, a 10% reduction of radio communication and maintenance service, a 15% reduction in County mail service and delay of the internal communication flow, a 25% reduction of records management with a resulting impact on departments storing records, a 25% reduction in the vehicle maintenance program with an impact on departments assigned vehicles in terms of reducing usage, a 30% reduction in building maintenance and custodial efforts resulting in less secure facilities which will also be less clean and well maintained, a 50% reduction of architectural service support to departments requiring leased space and modifications, and total elimination of the facilities development function that currently manages the facilities development (capital projects) expenditures.

The Department of Animal Control - reduce shelter hours by 20%, resulting in the shelter's closing at 5:00 p.m. on weekdays instead of 6:00 p.m. and not opening on Saturdays and Sundays as they are now. There will also be a 5-10% reduction in field services such as picking up strays and enforcing quarantines.

The Department of Agriculture - reduce pest detection and suppression activities as well as weights and measures inspections, resulting in a loss of service to the public.

The Department of Parks and Recreation - reduce services by more than 30%. This will affect park maintenance, development of local and regional parks, special use parks such as Quail Gardens, and support to outside agencies such as the San Diego Symphony, various museums, and other cultural organizations.

The emergency planning efforts currently coordinated by the County Office of Emergency Services would be eliminated. Support for Fire Protection Districts would be reduced by 25%, resulting in less training and equipment being available for these districts.

The Registrar of Voters - reduce such election services as registration outreach and election day reporting services. The number of precincts would be reduced by 15%, requiring voters to travel farther and wait longer to vote. Election information available on election day will be delayed and results will take longer.

GENERAL ADMINISTRATION

General Administration departments provide basic accounting, personnel, legal, data processing, administrative and management support services to the other four County agencies. Services also include

long range planning, public information and legislative activities. The level of these support services is largely determined by the level of services being provided by the other four agencies. Based on reductions in the other agencies, services provided by General Administration departments would be reduced by a total cost of $5.6 million for a $5.5 million reduction in property tax financing. This reduction would include 209 staff years.

LAYOFF PROCEDURES

The illustrative budget reductions summarized in this section imply a County staff-year reduction of 2100. This can only be achieved in the period required by layoff.

Provisions for laying off County workers are contained in Rule XIV Part 1 - Layoff Section 14.1.1 thru 14.1.6 of the Rules of the San Diego County Civil Service Commission. The rules provide for the following order of layoff: (1) provisional, (2) limited, (3) certified temporary, (4) probationary, (5) permanent employees. Employees in groups 1 thru 4 above are laid off within their group at the discretion of their appointing authority. Group 5 (permanent employees) are laid off based on the following rating system.

When a layoff does occur, the appointing authority selects the classes to be laid off. With the approval of Civil Service Commission the layoff can then occur by division, section, office, institution or other subdivision of an office, board, department or institution.

Although not specifically stated in the rules, laid off employees may "bump" employees in lower classes if they have a higher rating in that class than the "bumped" employee. Bumping can be done only with the approval of the appointing authority.

The Personnel Department is currently discussing proposed changes to these layoff rules with employee organizations. The Board will be discussing what the parameters of these discussions will be in Executive Session in a few weeks.

UNEMPLOYMENT INSURANCE

Assembly Bill 644 was passed by the Legislature on January 19, 1978, and later signed by the Governor. The bill was enacted to comply with Federal requirements to extend Unemployment Insurance (UI) coverage to State, local government and domestic employees.

Under this legislation San Diego County is now liable for the full amount of all benefits paid to ex-employees who file unemployment claims if the County was the only employer who paid base period wages. There is a total maximum potential liability of $8,112 for each employee. This assumes the maximum weekly benefit rate of $104 for 39 weeks (including extended duration benefits) on a first benefit year claim (for which the County would be liable for a total

of $4,056 for each employee) and a second benefit year claim on which the County may be potentially liable for an additional $4,056 in reimbursable benefits. However, the possibility of the County paying out the full $8.112 maximum in claims is remote. To accomplish this, an employee would have to draw the maximum first year claim of $4,056, be reemployed for a short period, then be terminated again in order to be eligible for the second year claim.

In order to decrease the impact of this financial liability on local government, the Federal government has provided for a 16 month phase-in period for funding UI benefits. Under these provisions the County will not be billed for claims filed until August of 1978, and even then the County will pay only 25% of the cost of the claim. In November of 1978 this will increase to 50%, in February of 1979, 75% and then finally in May of 1979 and thereafter the County will become fully liable for claims filed. The attached chart illustrates the phase-in of benefit liability. The chart indicates 1st year cost only. As mentioned before, claimants can then file a second year claim, and draw another 39 weeks of benefits if they are eligible.

The claims filed by former County employees will lead to further pressures on County finances and may lead to the need to reduce services beyond the level indicated earlier to meet the County's liability.

UNEMPLOYMENT COMPENSATION

1st YEAR BENEFITS

CLAIM FILED	BASE PERIOD	BILL DUE STATE (REIMBURSEMENT METHOD)	BASE PERIOD FUNDING SOURCE	1st EXTENSION BEGINS	1st PAYMENT FOR EXTENSION DUE	MAXIMUM COST LIABILITY IF CLAIM FILED
December 77	Jul 76-Jun 77	-	100% Federal	-	-	0
January 78	Jul 76-Jun 77	-	"	Jul 78	Dec 78	$ 0
February 78	Oct 76-Sep 77	-	"	Aug 78	Dec 78	$ 0
March 78	Oct 76-Sep 77	-	"	Sept 78	Dec 78	$ 0
April 78	Oct 76-Sep 77	-	"	Oct 78	Mar 79	$ 0
May 78	Jan 77-Dec 77	-	"	Nov 78	Mar 79	$ 0
June 78	Jan 77-Dec 77	-	"	Dec 78	Mar 79	$ 0
July 78	Jan 77-Dec 77	-	"	* Jan 79	Jun 79	$ 0
August 78	Apr 77-Mar 78	Dec 78	75% Federal 25% County	Feb 79	Jun 79	$ 1,014
September 78	Apr 77-Mar 78	Dec 78	75% Federal 25% County	Mar 79	Jun 79	$ 1,014
October 78	Apr 77-Mar 78	May 79	75% Federal 25% County	Apr 79	Sept 79	$ 1,014
November 78	Jul 77-Jun 78	May 79	50% Federal 50% County	May 79	Sept 79	$ 2,028
December 78	Jul 77-Jun 78	May 79	50% Federal 50% County	Jun 79	Sept 79	$ 2,028
January 79	Jul 77-Jun 78	Jun 79	50% Federal 50% County	Jul 79	Dec 79	$ 2,028
February 79	Oct 77-Sept 78	Jun 79	25% Federal 75% County	Aug 79	Dec 79	$ 3,042
March 79	Oct 77-Sept 78	Jun 79	25% Federal 75% County	Sept 79	Dec 79	$ 3,042
April 79	Oct 77-Sept 78	Sept 79	25% Federal 75% County	Oct 79	Mar 80	$ 3,042
May 79	Jan 78-Dec 79	Sept 79	100% County	Nov 79	Mar 80	$ 4,056

* After January 1, 1979, the Federal Government will not share the cost of any benefits (regular or extended) based on wages paid to local Government Employees after Jan. 1, 1978

Prepared by: Office of Management and Budget
Policy & Management Division
March 29, 1977

IV. EFFECT OF PROPOSITION 13 ON OTHER LOCAL GOVERNMENT AGENCIES

This section summarizes responses received from various governmental agencies in the County to our inquiry regarding the potential effect of passage of Proposition 13 on their agencies.

CITIES

The preliminary analysis of the Jarvis/Gann Initiative on San Diego County estimated that cities receive $61.8 million in property taxes in 1977-78 to finance their operations. We further estimated a reduction of approximately $36.6 million if the revenue loss due to Proposition 13 were to be apportioned according to 1977-78 collections.

Nine of the fourteen cities responded to County request for information on the impact of the Initiative. *These nine cities are estimating a reduction of approximately $36 million. The City of San Diego estimates a loss of $27 million. (One reason for the higher estimates from the individual cities is due to County staff's use of County wide averages in the preliminary analysis). A second reason is the City of San Diego's differing interpretation of the Initiative's provision relating to the 2% increase in market value of real property. The City interprets this provision as not being effective until 1979-80, whereas County staff assumed it would apply to 1976-77, 1977-78 and 1978-79. Consequently, less taxes would be collected under the City's interpretation.

Most cities outlined a mixed strategy, including elimination or reduction of some services and increases in other available revenues. Capital projects and park acquisition would be eliminated by most cities. Other areas which would commonly be reduced or eliminated include recreation and contributions to charitable or cultural agencies. One city, Escondido, would eliminate its paramedic program.

Police and fire services would be reduced, particularly for "neighborhood watch" and other non-essential services.

All cities indicated there would be some layoff of employees, but most did not provide estimates of the number of employees affected.

Several alternative sources of revenue to offset property tax losses included the utility users' tax, property transfer tax, business license tax, sewer fees, transient occupancy tax, and increased or new fees for parks and libraries. Most cities would redirect their

*The cities responding were: Chula Vista, Coronado, Escondido, Imperial Beach, La Mesa, Lemon Grove, National City, San Diego, and Vista.

surpluses, Federal Revenue Sharing and anti-recession funds to cover operating expenses.

Finally, like schools, cities are concerned that the loss of local property tax could lead to losses of other revenues based on local funds, particularly Federal revenue sharing and Federal and State grants. Also, Proposition 13 will limit revenues which will be available from tax increment financing arrangements for redevelopment districts.

SCHOOL DISTRICTS

We showed an estimated loss of $201.3 million for various educational purposes in the preliminary analysis. This was from the combined educational taxing agencies ranging from elementary school districts through community colleges and including the Countywide Department of Education.

Nineteen school districts responded to the County's request for information. The responses showed that, on an average, property tax revenues constitute 51% of the school district budgets, and ranges from 28% to 85%. Under Proposition 13, if 60% of all property tax revenues is eliminated, school district budgets will be reduced by an average of 30% (in a range of 18% to 51%). All districts who responded indicated that this reduction will significantly affect their services.

If Proposition 13 passes, the objective of most districts will be to maintain direct teaching services to students to the extent possible. The first items to be reduced or eliminated include:

Building and Maintenance Operations
Administration
School Bussing
Food Services
Extracurricular Activities (Athletics, Music, etc.)
Counseling
Health Services
Community Programs

Most districts mentioned increasing class size and student-to-teacher ratios, limiting the length of class days, limiting the number of periods, and increasing teachers' class loads as economy measures.

An average of 81% of school districts' budgets goes toward personnel costs, in a range of 70% to 90%. In those districts which provided estimates, between 30% and 50% of all employees would be laid off. State law requires that classified employees who are to be laid off receive notice by March 15 for the coming fiscal year and certificated employees (teachers) be notified by May 15. The timing of

Proposition 13 may not be sufficient to notify everyone. In this case, schools might remain open until they run out of money.

One district noted that it would probably close altogether if Proposition 13 passes and no alternative revenue sources are found. Another district would close its high schools. Several districts said they would expect the State to make up for revenues lost as a result of Proposition 13.

School districts, particularly community college districts, could also lose State apportionment funds which are a more significant funding source to some districts than property tax. If the increased student/teacher ratios and other economy measures result in decreased student attendance, State apportionment funds would also decrease.

SPECIAL DISTRICTS

Governed by Independent Boards

While special districts are organized under numerous titles and classifications in State law, they are grouped into four categories for this report. Water, Fire, Hospital and other water districts include include municipal water districts, County water districts and irrigation districts.

1. Water Districts

   Nine Municipal Water Districts and two Irrigation Districts responded to the County request.

   Most responded that services would not be curtailed, because water districts would raise water rates to pay for capital improvements now funded by the property tax. These water districts predicted "significant" increases in water costs would result, including a 10% increase wholesale, a 30% increase retail, and a 37% increase in sewer service charges.

   The shift from property tax to increased water rates which are already rising for other reasons, may have negative effects. It will be more difficult for water districts to incur indebtedness to finance upgrading of main lines and service lines necessary for quality water. The cost of money would probably increase, and users of water would have to pay these higher capital costs through increased fees for water. This shift would be a basic departure from the current practice of funding water capital improvements from property tax. The current practice is based on the premise that all property owners benefit from the availability of water because of the increased value of their land. If water users must pay the cost of capital improvements through water rates, then they are subsidizing owners of undeveloped lands who will profit from the availability of water when their land is sold.

2. Fire Districts

The following summarized the responses of fifteen San Diego County fire protection districts. Each fire district is almost solely dependent on property tax revenues. Other than charges for ambulance services in some districts, no alternative revenue sources are authorized in State law for financing of fire districts. Thus, a 60% reduction in property tax revenues means a 60% reduction in budgets. Approximately 85% of fire district costs is for personnel. Reductions in staff estimated by the 15 fire districts ranged from 50-60%. This would require elimination of amublance and paramedic services in 7 of the fire protection districts. Itwould also eliminate or seriously reduce fire prevention, education programs, fire prevention home inspections and plan checking, CPR and first aid training and other special fire suppression and safety programs. Two (2) fire districts report the need to end operation of a total of three (3) fire stations, and one (1) engine company.

A major result of Proposition 13 would be to seriously hamper the ability of fire protection districts to provide a level of fire protection services that would be cost-effective in reducing property owners' fire insurance premiums. Every area in the United States is graded by the insurance industry to determine its physical defenses against fire. On a scale of 1 to 10, an area is rated on a weighted basis according to water supply (39%), fire department (39%), fire services communication (9%), and fire safety control (13%). Several fire departments reported that they find it cost-effective to maintain a 4 or 5 rating. The effect of a 60% reduction in revenue would lower that rating possibly as far as 10, the end of the scale. An owner of a $50,000 home may be faced with estimated increased fire insurance cost ranging from $32 to $60 per year above current combined cost for fire taxes and insurance.

We asked what effect a 100% reduction in property tax revenues would have on fire districts. All fire districts are almost solely dependent on property tax revenues. Each of the 15 fire districts responded that unless alternative sources of revenue were provided they would have to cease operations without property tax funding.

Weasked what alternative sources of revenue might offset a loss of property tax revenue. Most fire departments responded that alternatives to the property tax would probably not be adequate. Several fire districts listed donations, fund raisers, service fees for inspections and emergency responses. Use of volunteer fire fighters was also cited.

3. Hospital Districts

Three of the four hospital districts in the County, Tri-City Grossmont, Fallbrook and Northern San Diego County responded to our inquiry.

The effect of a 60% and that of a 100% reduction in property tax for hospitals would be different only in degree. These hospital districts use property tax revenues primarily to fund capital projects and equipment purchases. Building projects, acquisition of modern medical equipment and provision of additional services would therefore be delayed.

Jobs created by these additional services would also be lost unless alternative revenues could be found. It appears that these hospitals would have to increase prices for medical care and lower the quality and quantity of that care. Rate increases may be disallowed under proposed Federal hospital costs-containment legislation. One hospital reported a problem in interpreting Proposition 13 which would likely be resolved only in the courts if the property tax initiative becomes law. The hospital district has voter approval for a tax override to pay a lease to a hospital authority which is a joint powers agreement between the County and the hospital district. The lease payments are used to pay outstanding revenue bonds of the hospital authority. If this tax override/lease purchase arrangement is interpreted as a current bonded indebtedness exempt from the Proposition 13 limitation then the hospital district has the general problems discussed above. However, if proposed property tax limitations were applied to the tax override, the hospital district would face more difficult financial problems.

4. Other Districts

We received responses from four other districts. These were two community service districts, a recreation and park district and the Penasquitos Sewer District. The responding community services districts provide sewer and water services. One indicated that it would shift its financing to rely more heavily upon service charges if there were a reduction in property tax revenues. The other district expressed concern that it would not be able to operate with such a loss in tax revenue.

The recreation and park district indicated that it would increase user fees to compensate for the reduction in property tax revenues.

The San Diego City Manager indicated that the Penasquitos Sewer District would suffer a reduction in property tax revenue to meet the debt service since the sewer bonds were issued without voter approval.

SPECIAL DISTRICTS

Governed by the Board of Supervisors

The Board of Supervisors sits as the governing body for 136 special districts as provided for by State law. The major districts which are partially or fully financed by property tax revenues are County Service areas, Highway Lighting and Lighting Maintenance Districts, Sanitation Districts and the San Diego Flood Control District. The County Library District is discussed in the section on the impact on County services.

1. County Service Areas

The cost of the service provided within each special district is provided by revenue obtained through ad valorem taxes. One service area (CSA 17 - San Dieguito Ambulance Service) is partially supported by direct billing of individual recipients of the service. One new service area (CSA 96 - Santee Recreational Services) is scheduled to provide initial service in fiscal year 1978-79 and provides for a portion of the revenue to be raised by fees.

The formation process for each area established in recent years has included an election of qualified voters to set a maximum property rate required to provide authorized services. Most service areas, when established, obtain initial revenue through a loan from the County Service Area Revolving Fund repayable in not more than five years.

Specific Impact:

a. A 60% decrease in property tax revenue, without alternate funding, will result in a direct reduction in service provided within the boundary of each service area. Further, initial discussion with County Counsel staff indicates that the repayment of outstanding principal and interest on existing loans will also be subject to the limitation of Proposition 13. All revenues may be needed for debt repayment, rather than continued service until the debt is repaid.

b. A total elimination of property tax revenues, without alternate funding will result in service termination. The majority of service areas provide improvement, repair and continuing maintenance of road not included in the County maintained road systems. The impact of termination will be primarily limited to relatively small numbers of people. Five service areas now provide local park maintenance, three provide structural fire protection, two provide ambulance service at the paramedic level, one provides domestic water supply, and one will provide recreational services starting in 1978-79. These latter services are provided over

an extended area, and will affect a significant population within the boundary of the service area.

c. Inasmuch as most service areas only provide one authorized service, a priority of services to be reduced would not be applicable; the overall level of service throughout the boundary would be decreased proportionate with the reduction of revenue available.

d. An alternate revenue source is now authorized by Government Code Section 25210.77a by fixing calendar year "benefit" charges. No majority protest by property owners is provided for, and generally no maximum dollar amount is specified. The amount of such charge must be reasonably related to the cost of providing the authorized service.

County Counsel and the Transportation Department foresee difficulty in the use of this provision for certain types of services. Such charges appear to be most appropriate for water, sewer, or garbage collection services, because the benefit to each property owner is more direct and more easily quantified for determining benefits. Services providing a more indirect benefit would be more difficult to quantify.

The attendant cost involved in determining level of benefit, adoption of required County Ordinance for each service area, conducting an annual public hearing (if collection of fixed charge is on tax roll), and the billing procedure will add to the required administrative costs involved in providing the service.

It is doubtful that the administrative process can be completed in time to be effective prior to the initiative. After the initiative is effective, a two-thirds vote of the qualified electors of each district is required before such a special tax may be imposed.

2. Highway Lighting/Lighting Maintenance Districts

General:

The cost of the service provided within each special district is provided by revenue obtained through ad valorem taxes. Thirty-one such special districts exist within the unincorporated areas providing for the continuing cost of operation and maintenance of street lighting systems.

County Ordinances require street improvements, including street lighting, for those lands being developed within the unincorporated areas. The lands being improved are then annexed to an existing special district to provide for the street lighting expense. The cost of initial installation and operation and maintenance until the lands are on the tax rolls is paid for by the developer through a special deposit.

Specific Impact:

a. A 60% decrease in property tax revenue, without alternate funding, will result in a direct reduction in service provided within the boundary of the district. Street lights in the ownership of the County and/or the San Diego Gas and Electric Company are involved. SDG&E provides the energy for all street lighting and maintenance for those company owned facilities. The various rates charged by the Company to the various special districts is that approved by the Public Utilities Commission for the level of service being contracted.

b. A total elimination of property tax without alternate funding will result in street lighting being terminated. Rates approved by the PUC include a factor for amortization of Company initial expense. Termination of the contract for each special district would be required.

c. Inasmuch as only street lighting is involved, a priority of services to be reduced would not be applicable; the overall level of service throughout the boundary would be decreased proportionate with the reduction of revenue available. Where some level of service can be continued, street lights not satisfying the "safety" level (intersections, and points of traffic conflict) would be turned off first.

d. An alternate revenue source within the authority used for street lighting is not known. County Service Areas are authorized to provide street and highway lighting. Conversion of the existing districts to County Service Areas would provide the alternate funding authority of Government Code Section 25210.77a, with additional administrative costs mentioned in the CSA alternate revenue discussion.

3. Sanitation Districts

The sanitation districts fund costs almost entirely from sewer service charges. Some use property taxes to fund redemption and there are a few exceptions. These exceptions are discussed below.

a. Only those districts with operation and maintenance funds raised by ad valorem taxes would be affected; these are the Rancho Santa Fe and Whispering Palms Sanitation Districts.

b. Rancho Santa Fe Sanitation District obtains a portion of the necessary operation and maintenance funds through the imposition of a property tax. Passage of the initiative would necessitate an increase of sewer service charge from $106.00/year/equivalent dwelling unit, a 60% increase.

c. Whispering Palms Sanitation District has historically obtained approximately one-half of its operations and maintenance funds from a property tax. Success of the initiative would require the existing sewer service charge of $45.00/year/equivalent dwelling unit to be increased to approximately $80.00/year/equivalent dwelling unit, or 78%.

d. Five of the districts have no ad valorem tax: Lemon Grove, Montgomery, Pine Valley, Solana Beach, and Wintergardens.

e. The remaining seven districts - Alpine, Buena, Cardiff, Julian, Lakeside, Ramona, Spring Valley - impose a property tax for bond debt principal and interest purposes only.

4. Flood Control District

The Flood Control Program provides services to the five active zones of the San Diego County Flood Control District. There is no net County cost to the part of the program, but the Flood Control Zones fund their costs almost entirely from the property tax.

The potential 60% reduction in property tax revenues would eliminate all new flood control facility construction, approximately $3 million, and would reduce the zone activities to management and minimal maintenance.

A potential source of replacement revenue would be an annual flood control or storm drainage charge or user fee to be collected on a parcel basis (not an ad valorem property tax) under Section 17.5 of the San Diego County Flood Control District Act. Assuming the legality of such fees under the Jarvis/Gann Initiative, the zones could continue to function at the level of revenues produced.

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February 17, 1978

Honorable Board of Supervisors
County of San Diego
335 County Administration Center
San Diego, California 92101

Honorable Board:

Re: Jarvis/Gann Initiative

You have asked our office to summarize the legal impact of the Jarvis/Gann Property Tax Initiative, respond to questions concerning the constitutionality of the Initiative and discuss what legal recourse may be available to the County to resolve some of the issues raised by the Initiative and permit sufficient time for the Legislature to adopt such laws as would be necessary to implement the Initiative in the event of its passage. A copy of the Initiative is attached hereto.

The Initiative would add a new Article XIIIA to the California Constitution without repeal or amendment of any existing constitutional provisions relating to taxation. As discussed below there are considerable potential conflicts between the Initiative and existing constitutional provisions relating to taxation which can only be ultimately resolved by the legislature and the courts. If adopted by the voters on June 6, 1978, the Initiative would be effective July 1, 1978 except that upon the date of its passage, the State would be prohibited from enacting "changes in State taxes enacted for the purpose of increasing revenues" absent a vote of 2/3 of all members of each house of the Legislature. In our analysis below, we quote each subsection of the Initiative separately and make comments both as to the anticipated effect of the subsection and legislative or judicial interpretation necessary to clarify conflicts or ambiguities. Lastly we discuss the alternatives available by way of judicial action to either prevent or delay the implementation of the Initiative.

ANALYSIS

A. Section 1[a]:

> "[a] The maximum amount of any ad valorem tax on real property shall not exceed One percent [1%] of the full cash value of such property. The one percent [1%] tax to be collected by the counties and apportioned according to law to the districts within the counties."

This provision would essentially limit the amount of property tax on real property to 1% of the full cash value as later defined in the Initiative. The provision does not expressly authorize any level of government to impose or levy the tax. This 1% limit is a restriction the amount of tax billed to the property rather than the valuation of the property which is treated elsewhere. Further, it is not clear whether the 1% limitation is cumulative based upon all levies of all "districts" on a particular piece of property; i.e., total tax bill not to exceed 1%, or whether each "district" may collect an ad valorem tax not to exceed 1% of the full cash value. The probable intent is a total 1% limit, though this ambiguity will have to be resolved by the Legislature or the courts. The provision then requires the County to apportion the tax "according to law" to the "districts" within the County. Arguably there is no authority to apportion any of the real property tax to cities or to the County unless the use of the term district is so all-embracing as to include cities and counties. Further there is no existing law relating to apportionment of taxes except for the County, upon collection, to distribute the tax revenues to the districts based upon their levy. Given the 1% limitation, there is no methodology for determination of what portion of that 1% is to be applied to each of the several "districts" or taxing authorities which may have the authority to levy a tax on the specific piece of property.

Note that the maximum amount applies only to real property and not to personal property which currently is taxed based upon the prior year's tax rate for real property on the secured tax roll. (Constitution, Article XIII, Section 12.) Under the current structure of our tax laws, the effect of the limitation on real property taxes would probably be felt in the subsequent year on personal property though the Legislature might act to change the method of assessment of personal property. A further complication arises in the

assessment of possessory interests which are private interests in property owned by a tax-exempt entity and for some purposes would be considered a tax on real property. It is unclear at this point in time whether the Initiative would directly be applicable in establishing a limit effective July 1, 1978 on the taxes on possessory interests which represent a significant portion of the total tax revenues of local government entities in areas with substantial development of government-owned lands, such as the lands of the Port District which have been improved with substantial commercial and industrial developments taxed as possessory interests. If not, such a limit however probably would exist for subsequent years as for personal property.

B. Section 1[b]:

> "[b] The limitation provided for in subdivision [a] shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective."

This provision permits collection of taxes in addition to the 1% to the extent necessary to pay interest and redemption charges on previously voter-approved indebtedness. It is unclear whether "redemption charges" includes principal, though the probable intent would be that both interest and principal are contemplated. The 1% limitation still applies to any indebtedness not subject to voter approval. The 1% limitation, of course, would remain applicable to funds to be raised to pay subsequent voter-approved general obligation bond issues. While revenue bond issues and other indebtedness not subject to voter approval may not be directly affected, the significantly reduced ability of local governments to fund their operations may drastically limit the marketability of revenue bonds uch as joint powers agency bonds funded by lease-lease back transactions where the lease payments are backed by property tax revenue or redevelopment agency bonds funded by property tax increment financing.

C. Section 2[a]:

> "[a] The full cash value means the County Assessors valuation of real property as shown on the 1975-76 tax bill under 'full cash value', or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation."

This provision would define "full cash value", for the purposes of the establishment of the base for the 1% limitation, as the amount shown on the 1975-76 tax bill for real property as established by the County Assessor. We note that such amount is often pre-equalization hearing and pre-cancellation or correction as a result of public agency errors. This provision would also appear to conflict with Article XIII, Section 15, which provides authority for the reassessment of taxable property physically damaged or destroyed after a lien date. As is noted repeatedly throughout this analysis, because the Initiative neither repeals nor amends existing constitutional provisions, considerable conflicts arise which may only be resolved by legislative or judicial action.

This provision does provide for adjustment of full cash value on real property "when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." It may be assumed, as under existing law, such reassessments would apply as of the next lien date. While identification of recorded purchases and reassessments based thereon does not appear to be a particularly difficult task, considerable problems arise with the use of the term "newly constructed". Real property is defined to include improvements or structures on the underlying land. (Rev. & Tax Code §§ 104, 105) Clearly when an improvement is built on raw land that would be newly constructed real property. However, it is not clear under the Initiative whether the underlying real property likewise can be reassessed to current value or whether the reassessment is solely limited to the value of improvement. Further, in the event the "improvement" is merely a remodeling or the addition of a family room upon an existing residential dwelling, it is unclear whether such work will have the effect of triggering the reassessment of the entire property interest or whether only an increment would be added relative to the value of the new construction.

It has also been pointed out elsewhere that the more frequent turnover of residential property as compared to commercial or business properties, i.e., once every seven years, will over a period of years result in a possible inequity discriminating against residential property by causing it to be a larger portion of the tax based upon new valuations. Such an effect may give rise to an argument by residential property owners of the denial of equal protection under the law, based both on the State Constitution and the Fourteenth Amendment of the Federal Constitution.

Likewise, identical residential properties will be valued differently based solely on date of acquisition. Article XIII, Section 1, of the Constitution presently provides:

"Sec. 1. Unless otherwise provided by this Constitution or the laws of the United States:

"(a) All property is taxable and shall be assessed at the same percentage of fair market value. When a value standard other than fair market value is prescribed by this Constitution or by statute authorized by this Constitution, the same percentage shall be applied to determine the assessed value. The value to which the percentage is applied, whether it be the fair market value or not, shall be known for property tax purposes as the full value.

"(b) All property so assessed shall be taxed in proportion to its full value." (Emphasis added.)

The value standard established by the Initiative is, of course, not uniform and though as a constitutional provision the Initiative would "otherwise provide" a different standard as apparently may be authorized by Article XIII, Section 1, presently, the inequality of tax burden and perceived inequities may be argued to be a denial of equal protection under the State and Federal Constitutions of such an extent and with an absence of an overriding public purpose such as to render the provision of the Initiative invalid.

It may be further noted that the Initiative is silent on the assessment of property by the State Board of Equalization such as public utility property which represents a significant dollar amount of tax revenues as well. The continued taxation of such public utility property at a significantly higher level than property subject to the Initiative may likewise give rise to challenges for violation of equal protection guarantees under the State and Federal Constitutions.

Lastly, Section 2[a] permits property "not already assessed up to the 1975-76 tax levels" to be reassessed. This in effect would permit escape assessments for all properties which had not been assessed to the 1975-76 level and appears to authorize the Assessor to exercise his judgment a second time in reviewing all the 1975 assessments to determine whether they were in fact proper current assessments for that year. Because of the obvious considerable amount of time it will take for the Assessor to review all 1975 assessments and make adjustments, the "full cash value" base for use in fiscal year 1978-79 will be uncertain for a considerable time after the effective date of the Initiative on July 1, 1978.

D. Section 2[b]:

> "[b] The Fair market value base may reflect from year to year the inflationary rate not to exceed two percent [2%] for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction."

This section appears to permit a limited adjustment in the full cash value or fair market value level above the 1975-76 level upwards not to exceed 2% for any given year and appears to permit a reduction of any amount as demonstrated by the Consumer Price Index or some unspecified "comparable data for the area under the taxing jurisdiction". Neither adjustment is mandatory. Recognizing that the property tax revenue is a combination of both the rate of the levy and the full cash value of the property, section 1[a] puts a limit on the amount to be collected by the levy at 1% of the "full cash value" base, section 2[a] establishes the "full cash value" base generally at the 1975 level subject to adjustment for sale or construction and then Section 2[b] permits the modification to that "full cash value" base.

A problem may occur in attempting to develop what in effect is "comparable data for an area under a taxing jurisdiction" and may result in differing full cash value adjustments based upon localized conditions not related to cost, income or market data of property transactions and again give rise to challenges from taxpayers on the basis of the denial of equal protection under the law in that the "full cash value" of their property would be fluctuating from one taxing area to another based on movement of a consumer price index or "comparable data" which may not in any reasonable fashion relate to the actual market value of real property. By way of example, a declining neighborhood may experience a reduction in actual fair market value for the particular properties and yet the "fair market value" base may be adjusted upward based on increasing cost of living. This particular provision may be interpreted to apply to the overall base for the taxing jurisdiction so that the entire fair market value of all property in the jurisdiction may only move up to a maximum of 2%, while individual properties may be able to be moved upward or downward within that total limitation

based upon their actual movement in the market place. While such an interpretation may perhaps be more reasonable in an attempt to reflect actual market conditions, it appears contrary to the general intent of the Initiative to treat the "fair market value base" as being the "value" for each specific piece of property and thus not permit the "value" of any individual property to go up or down more than is authorized by Section 2[b] and permit property which is actually declining in true value nonetheless to increase in assessed "value" if the consumer price index has gone up.

This section also raises an issue as to the authority to levy escape assessments for property not in existence in 1975 but in existence and not taxed for 1977 or 1978. Under present law an improvement built on real property in 1976 but not identified and assessed by the Assessor until 1978 now may be assessed as an escape assessment for 1976 and all years subsequent and likewise in the event improvement was destroyed, under present constitutional authority, the assessment may be cancelled. Arguably under Section 2[b] the amount of the escape assessment may not increase the "base" for the entire property more than 2% for each year of escape assessment nor may the cancellation occur absent a judicial resolution of the conflict between 2[b] and other provisions of the Constitution authorizing such escapes or cancellations.

E. Section 3:

> "From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less thatn two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed."

This provision would prohibit change in State taxes from the effective date of the article, i.e., the date of the vote June 6, "for the purpose of increasing revenues". A minor change in method of computation or reporting imposed by the Legislature or by the State Board of Equalization may

have the effect of reducing certain tax burdens and increasing others with either no change or with a change in the total revenue collected. In some instances the impact on total revenues may not be known until the change is implemented. This section would appear to prohibit any such potential change absent the 2/3 vote of all members of both houses of Legislature.

The section further prohibits absolutely the imposition of any new ad valorem taxes on real property or sales or transaction taxes on the sales of real property. The prohibition on levying additional taxes absent the 2/3 vote gives rise to the argument that the proposition embodies more than one subject, i.e., a property tax limitation and general State taxation limitation contrary to state constitutional requirements for initiatives (Art. 11 § 8). This provision for a 2/3 vote to increase all State taxes also appears to be directly contrary to State Constitution, Article XIII, Sections 27 and 28, which permit a majority vote for the imposition of banking, corporate and insurance taxes. Again, judicial resolution would be required to resolve these apparent conflicts. Further, this provision appears to be in conflict with the constitutional authorization for the State to levy property taxes up to the extent of 25% of its budget (Art. XIII, § 22) without the express repeal thereof.

F. Section 4:

> "Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district."

This provision may have the effect of terminating all existing local taxes such as sales taxes, business taxes, real property transfer taxes and transient occupancy taxes and would require a 2/3 vote of "qualified electors" before such taxes could be effective after July 1, 1978. Note that the 2/3 requirement is not of the voters voting in a particular election but all "qualified electors" which would appear to mean all persons eligible to register. There is no definition of the term "qualified elector" though an elector is defined as a person who meets the minimum age and residence requirements required to register. (Elec. Code § 17.) Arguably the modification by the use of the term "qualified"

could be construed to mean electors who are registered, though electors who are registered have been defined simply as a voter in Section 18 of the Elections Code. It would appear impossible to determine how many "electors" actually exist within a given jurisdiction though of course it would be possible to determine the number of "qualified electors" if that term means persons who have registered.

This section also creates a dilemma in appearing to specify that cities, counties and districts may not impose ad valorem taxes on real property which may be construed to be an absolute prohibition on the levy of property taxes just as Section 3 of the Initiative prohibits the levy of property taxes by the State. Thus conceivably no one is authorized to impose an ad valorem real property tax. Though such a construction is obviously unreasonable, it raises the issue of the lack of clear intent of the specific language of the Initiative which must be resolved by the Legislature and the courts. Lastly we note that the section prohibits the imposition, absent the 2/3 vote, of "special taxes on such district". (Emphasis added.) Of course, the taxes are not levied on the public entity but rather on property within the public entity which is subject to taxation.

G. Section 5:

> "This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall become effective upon the passage of this article."

This provision makes applicable the entire Initiative as of July 1, 1978 except Section 3, which provides the limitation upon the State action to increase revenues by modification of State taxes and prohibits State enactment of property taxes on real property or property transactions, which would become effective on the date of election of June 6, 1978. The July 1, 1978 effective date will cause considerable administrative problems in not only the computatation of available revenues for purposes of developing budgets but also in the preparation of the assessment roll for the fiscal year 1978-79 which pursuant to the Initiative as discussed above, would have to in some fashion be entirely revised to reconstruct an assessment roll based upon 1975 values and adjustments in value between 1975 and 1978 based upon sale or construction or title change. It is not likely that such recomputations and adjustments could be made in such a fashion as to permit the normal tax calendar and budget calendar as established by State law to be operative.

Urgency legislation would be needed to extend various deadlines for both the tax process and the budget process to permit orderly functioning of government absent a judicial suspension of the effectiveness of the Jarvis Initiative.

In view of the foregoing problems of the administration of a substantially changed assessment process, the argument may be made that the effective date makes the Initiative at least in part applicable to fiscal year 1979-80 rather than fiscal year 1978-79 in that under present tax law the assessments for fiscal year 1978-79 are based on value and ownership of property as of lien date March 1, 1978 which, of course, predates the effective date of the Initiative. Such an argument, however, would not go to the 1% limit on the amount of tax paid for fiscal year 1978-79 but only to the determination of full cash value on lien date March 1 for the 1978-79 fiscal year. Further, such an argument would appear to be contrary to the apparent intent of the Initiative to be fully effective for the tax year 1978-79. Again, this issue like the others must be resolved by the Legislature and the courts.

H. Section 6:

> "If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect."

This severability clause will serve to permit portions of the Initiative to remain in effect in the event other portions are judicially challenged and held invalid or unconstitutional. The exact effect cannot be determined, of course, until such time as it is ascertained what sections of the Initiative are challenged and ruled on by the courts.

LEGISLATIVE AND JUDICIAL ACTIONS

A. SUBJECT MATTER

As is noted above, virtually every section and subsection of the Initiative is subject to some ambiguity or conflict with existing statutes or constitutional provisions. These conflicts and ambiguities will of necessity have to be resolved by a combination of legislative and judicial interpretation. In addition, the very authority to place such an initiative on the ballot has been challenged in lawsuits filed in Superior Court in Sacramento County

and in the Supreme Court on the basis that the Initiative violates Article II, Section 8(d) of the California Constitution which provides:

> "An Initiative measure embracing more than one subject may not be submitted to the electors or have any effect."

The petition of the Jarvis/Gann Initiative had the words "PROPERTY TAX LIMITATION" in the "black letter" portion of its title. The Initiative however, also treats limitations on other state taxes in Section 3 and other local taxes in Section 4. We note that while the one subject matter rule may be alleged to be violated, there is little support in the California case law to invalidate an initiative measure prior to the vote thereon and a review of cases from other jurisdictions demonstrates that the courts have frequently given a very liberal interpretation to similar restrictions to permit initiatives to be voted upon wherever reasonable or possible. (90 A.L.R. 570, 4 A.L.R.2d 617.)

B. EQUAL PROTECTION

A variety of the provisions of the Initiative give rise to potential arguments of a denial of equal protection of the laws guaranteed in the Fourteenth Amendment of the United States Constitution. Among the rights intended to be protected from discriminatory state action by the Fourteenth Amendment of the United States Constitution are rights to acquire, enjoy, own and dispose of property and equality and enjoyment of property rights were regarded by the framers of the Fourteenth Amendment as essential preconditions to the realization of other basic civil rights and liberties which the amendment was intended to guarantee. (Mulkey v. Reitman (1936) 64 Cal.2d 529.) Generally, the equal protection clause applies to state tax legislation. (Township of Hillsborough v. Cromwell (1945) 326 U.S. 620, 90 L.Ed. 358; Ohio Oil Company v. Conway (1929) 281 U.S. 146, 74 L.Ed. 775.) However, it is clear that the equal protection clause does not operate to prevent or prohibit all inequalities in state taxation. (Beers v. Glynn (1908) 211 U.S. 477, 53 L.Ed. 290; City of San Mateo v. Mullin (1943) 59 Cal.App.2d 652; Henry's Restaurant of Pomona, Inc. v. State Board of Equalization (1973) 30 Cal.App.3d 1009.) Nevertheless, the Fourteenth Amendment requires that in the exercise by a state of its taxing power, a citizen shall not by arbitrary and discriminatory provisions be denied equal protection.

(Keeney v. Comptroller of the State of New York (1911) 222 U.S. 525, 56 L.Ed. 299.) It has generally been said that property may not be classified in such a way for tax purposes that it bears a burden greater than that of other property of like value in the same assessment jurisdiction. In classifying property for taxation, some benefit to the property taxed is a controlling consideration and the plain abuse of this power will justify judicial interference. (Union Refrigerator Transit Company v. Kentucky (1905) 199 U.S. 194, 50 L.Ed. 150.)

No definite rule can be laid down for determining whether a particular classification for tax purposes is reasonable or arbitrary, and the question must be decided upon the facts and circumstances appearing in each particular case. (Bell's Gap Railroad Company v. Pennsylvania (1889) 134 U.S. 232, 33 L.Ed. 892.) However, it has long been recognized in California law that there should be an expectation of general equality of operation or approximation of equality that may fairly be expected to result from assessment of property benefited in proportion to its ascertained value. (Hart v. Gaven (1859) 12 Cal. 476; Los Angeles County Flood Control District v. Hamilton (1917) 177 Cal. 119.)

As discussed above, the specific application of the Jarvis/Gann Initiative to various taxpayers may well result in an inequality of taxation sufficient to support a challenge by such taxpayers to the Initiative on the basis of a denial of equal protection of laws.

C. IMPAIRMENT OF OBLIGATIONS OF CONTRACTS

An additional argument may be made that the Initiative may also violate the federal constitutional provision on the impairment of the obligations of contracts. (U. S. Constitution, Article I, Section 10, Clause 1.) While the exercise of the power to tax has normally not been held to be an impairment of the obligation of contract on the theory that there is no contract between the state and individual as to the level or extent of taxation (McCoppin v. McCartney (1882) 60 Cal. 367; Hay v. Hill (1884) 65 Cal. 383.), the substantial reduction of property tax revenues may be asserted to be a constitutionally prohibited impairment of public agencies' contracts when the public agencies are unable to meet their fiscal obligations.

It is clear that the federal constitutional prohibition applies to state constitutions and constitutional amendments. (Russel v. Sebastian (1913) 233 U.S. 195, 58 L.Ed. 912; Bier v. McGehee (1892) 148 U.S. 137 L.Ed. 397.)

Specifically, the constitutional prohibition governs state action affecting fiscal obligations of taxing authorities. The United States Supreme Court has held that public bonds issued by states and their subdivisions constitute contracts within the meaning of the provision and a taxing power which was the source of payment thereof at the times such bonds were issued may not be withdrawn or limited thereafter, leaving no adequate means of payment. (Seibert v. United States, ex rel. Lewis (1886) 122 U.S. 284, 30 L.Ed. 1161.) Thus, arguably, the limitation of property tax revenues available to pay redevelopment agency bonds or lease payments, which in turn pay for a joint powers agency bonds, may be violative of the constitutional prohibition on the impairment of contracts. Similarly, those public agencies authorized to enter into installment sales contracts such as fire districts may have their obligations under contracts substantially impaired by the reduction of the property tax revenue. Further, after an appropriation has been made or revenue provided by law, the state cannot withdraw such provisions where to do so would amount to impairment of contractual obligation. (Robinson v. MaGee (1858) 9 Cal. 81; Rose v. Estudillo (1870) 39 Cal. 270.) Likewise, the multitude of agreements between the County and various State and Federal Agencies to provide various social programs contingent in part upon the use of local revenues along with matching funds from federal or state revenues may be so drastically affected by the reduction of property tax revenues, as to support an argument for the impairment of the obligation of contracts even to the point of impossibility of compliance with federal and state requirements to undertake certain programs at local cost. The full extent of the impact of the Initiative on public agency contracts may not be known until priorities are established for the use of the reduced property tax revenues. However, there is little doubt that some impairment of obligations will result and absent offset revenues as a result of legislative action, litigation should be considered by local public agencies to test the constitutionality of the Initiative.

D. DELAY OF EFFECTIVE DATE

The impact of the July 1, 1978, effective date would be to virtually render meaningless the entire assessment and

budget calendars established by the Legislature. Thus, urgency legislation will be required to insure that an orderly framework is established statewide for the undertaking of all the necessary actions to prepare an appropriate assessment roll and budget documents and then make proper levies of property taxes.

Absent such legislation, judicial action should be considered to delay the effectiveness of all or part of the Initiative to insure the orderly process of government and the provision of necessary public services.

E. ALTERNATIVE FUNDING

Both the fiscal impact of the Initiative and possible legislative action to provide alternative revenue sources are discussed in detail in the report of the Chief Administrative Officer. Since the Initiative would require a two-thirds vote of all members of both Houses of the Legislature (Section 3), or a two-thirds vote of "qualified electors" of a local agency to provide alternative taxes (Section 4), the likelihood of alternative funding being provided in a timely fashion to prevent impairment of the operations of local agencies appears unlikely at best. In the weeks ahead, our office will continue to assist the Chief Administrative Officer, Office of Management and Budget, and Office of Intergovernmental Affairs in reviewing various options available at both the state and local level to obtain such alternative funding, so that your Board may consider such options and take such action as you deem appropriate.

F. PENDING LITIGATION

A lawsuit was filed in Superior Court, County of Sacramento, by Bruce W. Sumner and Edward J. Wallin, against the Secretary of State, seeking to bar the Jarvis/Gann Initiative from appearing on the June 6, 1978 ballot. The hearing was held on February 15, 1978 and the Superior Court held that the title and summary of the Initiative were misleading. The court directed specific wording be changed to permit both the title and summary to be a more accurate description of the Initiative. The Judge declined to invalidate the Initiative on the argued basis that it represented more than one subject matter. Therefore, with the revised title and rewording on the ballot, the matter will appear for election on

June 6, 1978, absent further judicial action on appeal. It is expected that an appeal will be pursued both on the constitutional basis that the Initiative itself contains more than one subject matter and on the basis that the title and summary on the petitions were misleading in the same manner that the title and summary on the ballot have now been held to be misleading. We shall continue to keep you apprised of further developments in that action as such occur.

Additionally, a second lawsuit has been filed in the Supreme Court by Richard E. Erwin, the Public Defender of the County of Ventura, seeking a writ of prohibition against the Secretary of State to block the Initiative. The Public Defender asserts arguments based upon the alleged dual subject matter of the Initiative, the reduction of revenues to the extent to deny constitutional guarantees of representation to indigent criminal defendants, the impairment of obligations of contracts in violation of the Fourteenth Amendment of the United States Constitution and a denial of equal protection as guaranteed by both the Fourteenth Amendment and the California Constitution. The Public Defender has asked, by letter to D. K. Speer, Chief Administrative Officer, for assistance of our County by way of amicus briefs. Your Board is scheduled to review both fiscal and legal impacts of the Initiative at your conference of Thursday, February 23, 1978. In the event you wish to consider joining in or initiating any litigation relative to the Initiative, we would be pleased to discuss that matter with you in executive session after your Board conference.

Very truly yours,

DONALD L. CLARK, County Counsel

By
JACK LIMBER, Deputy

JL:jss
A78-0211

Approved:
Donald L. Clark
County Counsel

TEXT OF JARVIS/GANN

That Article XIIIA is added to the Constitution to read:

Section 1.

[a] The maximum amount of any ad valorem tax on real property shall not exceed one percent [1%] of the full cash value of such property. The one percent [1%] tax to be collected by the counties and apportioned according to law to the districts within the counties.

[b] The limitation provided for in subdivision [a] shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

Section 2.

[a] The full cash value means the County Assessors valuation of real property as shown on the 1975-76 tax bill under "full cash value", or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.

[b] The fair market value base may reflect from year to year the inflationary rate not to exceed two percent [2%] for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

Section 3.

From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

Section 4.

Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district.

Section 5.

This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall become effective upon the passage of this article.

Section 6.

If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.

APPENDIX B

The following government agencies have responded to a County of San Diego request regarding the effect of Jarvis/Gann on their operation.

Cities

Chula Vista
Coronado
Escondido
Imperial Beach
La Mesa
Lemon Grove
National City
San Diego
Vista

School Districts

Elementary

Alpine
Cajon Valley
Chula Vista
Lakeside Union
Lemon Grove
National
Santee
South Bay Union

Unified

Borrego
Coronado
Oceanside
Poway
San Diego
Vista

High Schools

Escondido
Grossmont
Julian
San Dieguito
Sweetwater

Community Colleges

Grossmont
Palomar
Sweetwater

Water Districts

Canebrake County Water District
Carlsbad Municipal Water District
Lakeside Irrigation District
Olivenhain Municipal Water District
Otay Municipal Water District
Padre Dam Municipal Water District
Pomerado County Water District
Rainbow Municipal Water District
San Dieguito Water District
Santa Fe Irrigation District
Wynola Water District

Fire Districts

Alpine
Bonita - Sunnyside
Borrego Springs
Encinitas
Fallbrook
Grossmont - Mt. Helix
Lakeside
Lower Sweetwater
Montgomery
Pine Valley
Rancho Santa Fe
Solana Beach
Santee
Spring Valley
Vista

Hospital Districts

Fallbrook
Grossmont
Northern San Diego County

Other Districts

Julian Community Services
Lake Cuyamaca
Pauma Valley Community

APPENDIX C

REFINEMENT OF PRELIMINARY ANALYSIS

As noted in the text, some additional concerns have come to our attention which may have an effect on information presented in our preliminary analysis published on January 23, 1978. Following is a discussion of the three we consider most significant.

The first deals with the interpretation of the allowance for increases in market value over the 1975-76 Assessor's appraised value.

Section 2 (b) of the Initiative reads:

> "The fair market value base may reflect from year to year the inflationary rate not to exceed two percent (2%) for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction."

Certain agencies, including Orange County and the City of San Diego, are interpreting this provision as not retroactive to 1975-76, but rather taking effect first in 1978-79. If we were to make the same assumption, the estimated assessed value base of $5.7 billion for 1977-78, as shown on page 7 of our preliminary analysis, would be reduced to $5.5 billion. This would result in a further reduction of $8.1 million in total property tax revenues allowable to $220 million in the current year.

If this assumption were taken a step further and the increases due to change in ownership are also not retroactive, then the assessed value base would be further reduced to $5.33 billion, yielding a maximum allowable property tax collection of $213.2 million in 1977-78. This would mean that the County-wide percentage reduction in property tax collections would be 61.9% instead of the 59.24% shown on page 8 of the preliminary analysis. This is a reduction of property tax collections of $346.4 million.

If the property tax loss were to be distributed proportionately among taxing jurisdictions in the County, County government would have been restricted to $44.7 million, a reduction of $72.6 million from the actual anticipated collections for 1977-78.

A second issue, noted by Counsel, deals with the treatment of state-assessed property. Section 2 (a) of the Initiative reads:

> "The full cash value means the <u>County Assessor's valuation</u> of real property as shown on the 1975-76 tax bill under 'full cash value', or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All real

property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation." (emphasis added)

The State Board of Equalization assesses all property owned by public utilities in the state. This amount is reported to each County Assessor and included separate on the assessment rolls. If taken literally, Section 2 (a) might infer that state assessed property would be exempt from the provisions defining full cash value. If that becomes the case, properties assessed by the state would reflect a higher valuation than those assessed by County Assessors and would therefore bear a continually increasing share of the property tax burden, even if subjected to the 1% limitation.

In San Diego County in 1977-78, state assessed secured property has an assessed valuation of $47.7 million, 7.0% of the total secured assessment roll. In 1975-76, state assessed secured property had an assessed value of $323.3 million, 6.7% of the total secured assessment roll. If locally assessed property (assessed by the County Assessor) was to be based on the 1975-76 valuation, but state assessed property was to be based on the 1977-78 valuation, then the state assessed property would account for 9% of the valuation and contribute the same percentage of the total secured taxes under the provisions of the Initiative.

A final concern is the effect of Proposition 13's passage on cities' and counties' general revenue sharing receipts. We noted in our preliminary analysis that it was not possible to calculate the amount of Federal General Revenue Sharing that might be lost due to the Initiative's passage. However, we stated that it could possibly be more or less the same percentage as the property tax loss. We have since learned that this was an overstatement. The Federal Office of Revenue Sharing has informed the State that the approximate state-wide decrease in revenue sharing would equal 8.9%. This is because the formula used to allocate revenue sharing to California is the so-called "five factor formula" of which tax effort is only one of the five factors considered. It must be noted, though, the amount of revenue sharing decrease to particular cities and counties will depend on any implementing legislation the Legislature may enact. For example, should the Legislature determine to have counties levy the 1% tax and then distribute the proceeds among the governments within the county, cities would lose their property tax portion of "relative tax effort" and consequently receive a decrease in revenue sharing monies greater than the 8.9% statewide loss. Counties on the other hand would receive an increase in their revenue sharing distributions.

ASSEMBLY REVENUE AND TAXATION COMMITTEE

ASSEMBLYMAN WILLIE L. BROWN, JR., CHAIRMAN

FACTS ABOUT PROPOSITION 13

THE JARVIS/GANN INITIATIVE

RELATIVE TO
PROPERTY TAX LIMITATIONS
LOCAL GOVERNMENT REVENUES, AND
LEGISLATIVE VOTING REQUIREMENTS ON
CERTAIN BILLS

February 15, 1978

Prepared by Staff of the
ASSEMBLY REVENUE AND TAXATION COMMITTEE

No. 659

Revised February 21, 1978

PREFACE

The attached report on Proposition 13, the Jarvis/Gann Initiative, was done at the request of the Chairman of the Assembly Revenue and Taxation Committee to provide the members of the Committee with information to aid them in their legislative duties.

By way of this report, neither the staff, nor the members of the Assembly Revenue and Taxation Committee, are advocating either a yes vote or a no vote on this ballot measure.

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SYNOPSIS OF REPORT

The so-called Jarvis-Gann Initiative is the third such attempt at imposing a constitutional limit on property taxes attempted in the past 10 years.

In 1968, Los Angeles County Assessor Philip Watson proposed a 1% limit. It was defeated by voters 2,146,010 to 4,570,097 (32% - 69%). A revised initiative featuring tax limits for various units of local government was qualified by Watson for the November 1972 ballot. Voters again rejected the measure, this time by a vote of 2,700,095 to 5,213,485 (34.1% - 65.9%).

During the past 10 years, the State Legislature has passed dozens of laws directly attacking property tax increases. Among them, not including increased funding for schools and special districts which reduced dependence on property taxes by local governments, were:

1967 - Senior Citizens Property Tax Assistance Law
- Open-space conservation (Williamson)

1968 - Homeowners' exemption ($750)
- Exemption of household personal property
- Reduction in business inventory (15%)

1972 - Homeowners' exemptions raised to $1750
- Renters' credit ($25 - $45) established
- Business inventory exemption increased (45%)
- Maximum property tax limits imposed on cities, counties and special districts, revenue limits set for school districts

1973 - Business inventory exemptions increased to 50%

1976 - Increased senior citizens' tax relief

1977 - Enacted a property tax postponement program for persons 65 and older with incomes of $20,000 or less

Summary of Initiative's Provisions:

Proposition 13 on the June 6, 1978 ballot -- the Jarvis-Gann Initiative -- qualified on December 23, 1977 with 1,264,000 signatures. It requires approval by a majority of those voting to become law.

The initiative has six basic provisions. It would:

1. Limit taxes on real property to 1% of "full cash value."

a. The county would collect the taxes.

b. The rates would be a maximum of $4.00 per $100 of assessed valuation (an added rate to pay off voter-approved bonded indebtedness occurring prior to passage of the initiative would permit a total average rate of $5.00 per $100).

2. Freeze "full cash value" at county assessor's 1975-76 valuation of real property.

   a. Provides rollback to 1975-76 valuation of recently assessed property.

   b. Permits assessment increases to current value upon sale or new construction of real property after effective date of initiative.

   c. Allows an increase of up to 2% annually in 1975-76 valuation.

3. Prohibits the Legislature from levying a state property tax or property transfer tax.

4. Requires a two-thirds vote of the Legislature to increase any state tax.

5. Prohibits any increase in property tax even by public vote.

6. Requires a two-thirds approval of "qualified voters" for any special taxes levied by local government or special districts.

All provisions of the initiative would become effective on July 1, 1978, except the two-thirds vote requirement on the Legislature which would become operative upon passage of the initiative (June 6, 1978).

Effect on Local Governments:

Cities, counties and special districts would lose more than half of present property tax revenues should the initiative pass. A total of $7.011 billion in revenues would be lost. All but $45 million in federal revenue sharing funds would be direct cuts in property taxes.

To replace this amount, local governments would have to increase existing non-property surcharges to record levels, reduce services where possible or look to the state and federal government for replacement funds. In many programs, cutbacks are not an option since continuation is mandated by state or federal law. Others such as fire and police protection are critical to residents and business safety.

Effect on State Government:

The initiative fails to detail what happens to existing property tax relief programs for homeowners and senior citizens. If they are wiped out along with the business inventory tax reductions, the state would reduce special funding costs by nearly $700 million initially. An additional $250-$300 million in added personal income tax payments would accrue because of itemized deductions lost for property tax payments.

There is no way to estimate the increased costs to the state for unemployment funding, welfare and added services to employees laid off because of a cut in local government services and the loss in income tax payments.

If state government were to replace over $6 billion in lost property tax funds, it would have to look to its three main sources of income -- sales, personal income, and bank and corporation taxes. None of the so-called "sin taxes" could raise enough to effect the loss in property taxes.

Present sales taxes of 6% (6.5% in BART counties) include 4.75% state, and 1.25% local taxes. To raise $2 billion through added sales taxes, the state rate would have to be increased to 6.5% (or 7.75% total, except in BART counties which would have an 8.25% rate).

To increase revenues from personal income taxes by $2 billion would require a 36% increase in present rates. If $2 billion were to be raised from bank and corporation taxes, the present 9% rate would have to be increased to 17.5%. The following table shows how $6 billion in lost property tax revenues could be raised by using any combination of sales, personal or bank and corporation taxes.

To raise this much additional state revenue...	from the sales tax alone, the total would be:	from the bank and corporation tax alone, the total tax rate would be:	from the personal tax alone, existing tax levies would be increased by:
$1 billion	6.85%	13.2%	18%
2 billion	7.75	17.5	36
3 billion	8.55	21.7	55
4 billion	9.45	26.0	72
5 billion	10.35	30.2	90
6 billion	12.05	34.5	109

Questions Unanswered by Initiative:

There are serious legal questions caused by lack of definition in the Jarvis-Gann Initiative, which will result in problems unless the Legislature or the courts act swiftly.

The California Constitution requires all property to be assessed at a single tax rate. Of the $7 billion or more in reduced property taxes, $4.3 billion would be from reduced commercial and business property. The lower tax rates would make it easier and more profitable for speculators to hold commercial and business properties.

At the same time, the initiative specifies that the 1975-76 valuation (increased by a maximum of 2% annually) applies to real property except that when real property is newly constructed or changes ownership, the new appraised value would be based on the market value at the time of completion or sale. Thus, homeowners required to relocate for a new job or similar reason would pay a greater share of the property taxes each year.

The initiative does not specify what happens to the existing $1750 homeowner exemption from property taxes. It does not detail how counties must apportion property taxes levied after the initiative passes. As a result, some cities or special districts with total dependence on property tax revenues may receive a 50% or more cut in revenues with no means for replacement.

"State taxes" are not defined. The question of whether an increase in rates to meet costs of unemployment insurance, disability or similar programs would require a two-thirds vote of the Legislature is unanswered.

Other problems which the initiative does not deal with include property assessed by the state. The Board of Equalization now values utilities and common carriers. However, the initiative specifically refers to "county assessors' valuation."

The initiative permits reassessment to current market value only when a property is constructed or sold. However, no definition of new construction is contained in the initiative. Would a multi-million dollar addition to an industry be classified as new construction or merely remodeling? If the courts determine such additions to be remodeling, the industry would remain under the 1975-76 assessed valuation.

Last year the Legislature enacted the timber yield tax which changes the method of taxing timber. If the initiative rolls the valuation for timber back to 1975-76, lumber harvesters may find themselves faced with a tax for timber already cut and sold as well as a tax at the time it was cut and sold.

The initiative requires a two-thirds majority of "qualified electors" to enact any local taxes. If "qualified electors" is interpreted strictly by the courts, this would make any tax override impossible. At present, only about half of the eligible 18-year-old and older residents qualified, actually register. No local election in recent years has drawn two-thirds of the registered voters, much less two thirds of those eligible to vote. Even if the two-thirds is interpreted as those registered to vote, getting enough voters to the polls to adopt new local taxes would be impossible.

Constitution Question:

The Jarvis-Gann Initiative is now being challenged on the grounds of unconstitutionality. The Constitution presently provides that "an initiative embracing more than one subject may not be submitted to the electors or have any effect." The courts must decide whether this initiative covers more than one subject, i.e., property tax limits, votes required on bill by the Legislature, etc.

I. SUMMARY OF PROVISIONS

A. Limits property taxes on real property to a maximum of 1% of "full cash value."

1. The county would collect the 1% tax.

2. The tax rate on real property would be limited to a maximum of $4.00 per assessed value in each county for general purposes. In most jurisdictions there would be added rates to fund existing voter-approved indebtedness, for an average $5.00 maximum tax rate statewide, declining in future years toward a $4.00 average maximum tax rate as existing indebtedness is paid off.

3. Additional rates may be levied to pay the interest and redemption charges on any voter-approved indebtedness enacted prior to July 1, 1978.

4. Counties shall apportion the 1% tax "according to law to the districts within the counties."

B. Freezes "full cash value" at 1975-76 "County Assessors valuation of real property."

1. "All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation."

2. Real property may be reassessed to current value when "purchased, newly constructed, or (upon) a change in ownership."

3. The "fair market value base" may be increased annually by the change in consumer price index but not to exceed 2%, or decreased by any reduction in CPI without limit.

C. Prohibits the Legislature from levying a new state ad valorem property tax or sales or transaction taxes on the sales of real property.

D. Requires that any increase in state taxes be enacted by a two-thirds vote of the Legislature.

E. Provides that "special taxes" other than ad valorem property taxes or sales or transaction taxes on the sale of real property may be levied by the counties or special districts upon approval of two-thirds of the "qualified electors."

F. Takes effect on July 1, 1978, with the exception of the two-thirds vote requirement for raising state taxes, which would be effective upon passage.

(For text of Initiative, see Appendix I.)

II. BACKGROUND

Proposition 13 is a tax limitation initiative sponsored by the United Organization of Taxpayers and People's Advocate. Circulated as the "People's Petition to Control Taxation," and more commonly known as the Jarvis/Gann Initiative, the petition was qualified by the California Secretary of State on December 23, 1977, with over 1,260,000 signatures.

Past Initiatives

This is the third attempt in 10 years to impose by initiative petition a constitutional limit on the amount of property tax that can be collected from real property.

In 1968, an initiative developed by Los Angeles Assessor Philip Watson proposing a 1% limit was placed on the November ballot as Proposition 9. It was defeated by the voters by a vote of 2,146,010 Yes to 4,570,097 No (32% - 68%). The measure was revised and placed before the voters as Proposition 14 in November 1972. The second "Watson Initiative" proposed a series of tax rate limits for the various units of local government which in the aggregate amounted to a limit of between 1.75% and 2%. Again the initiative was defeated, by a vote of 2,700,095 Yes to 4,213,485 No (34.1% - 65.9%).

Property Tax Increases

Subsequent to the second initiative, the Legislature acted to impose separate rate limits in cities, counties, and districts, and a revenue limit on schools, in SB 90 of 1972. Since the passage of these tax rate limits, average property tax rates have declined.

Despite the tax rate limitations imposed by SB 90 of 1972, however, property tax revenues throughout the State have increased. This has been due in part to the effect of inflation on local governments, in part to the mandates by State and Federal Governments for new and more costly programs, and in part to the phenomenal growth in the market value of housing in California. This latter factor has led to a continual shift of tax burden from income-producing properties to single family residences. The Department of Finance estimates that while 33.7% of the total roll was attributable to single family residences in 1972-73, this percentage was 38.6% in 1977-78, and rising. Appendix II shows home value and net tax by income class of homeowners.

The California Constitution requires that all real property be valued based on the standard of fair market value, unless otherwise specified or authorized by the Constitution (e.g., the valuation of single family homes, when located in an area zoned for single-family residential use, must reflect that restricted use). Assessors must measure the fair market value of all homes on the roll by reference to the prices paid for comparable

properties. The situation is aggravated by the fact that assessors generally reassess property after several years, so that the tax may increase by an enormous percentage in the year of reassessment.

The Department of Finance estimates that property taxes in California will exceed $11 billion in 1977-78, for an increase of 9.6% over the previous year. About half of this is generated from all types of residential property. Of each property tax dollar, 10 cents goes to cities, 31 cents to counties, 53 cents to school districts and 6 cents to special districts.

See Appendix III for a summary of property tax relief measures enacted by the Legislature between 1967 - 1977.

Current Reliance on Property Taxes

Local agencies vary in their reliance on property taxes depending on the provisions of State law which govern their finances, individual agency spending habits, local needs, and available tax base. Counties range from about 32-40% in percentage of total revenue attributable to property taxes, cities from 0% to nearly 60%, special districts from 0% to 100% , and school districts from around 20% to nearly 90%. (See Appendix IV for selected examples.)

Some local agencies have greater discretion than others in raising property taxes.

For example, school districts receive funding at a specified level per unit of average daily attendance (ADA). State law dictates how much of this funding must be raised through local property taxes and how much will be provided by the state. There are also a few programs financed by property taxes that are at the option of local school districts, but these represent a very small proportion of overall school finance.

In contrast, certain types of special districts have legislative authorization to levy service charges sufficient to cover the cost of operations. Such districts usually levy property taxes only to cover the cost of any voted bond indebtedness. Other types of special districts, however, such as fire protection districts, are totally reliant on the property tax for their financing.

See Appendices V to VII for property tax levies, assessed valuation, and distribution of tax rate, county-by-county.

III. SUMMARY OF FINANCIAL IMPACT OF JARVIS/GANN

A. Local Government	1978-79 (in millions)
Costs	
Property Tax Revenues	$-7,031
Federal Revenue Sharing	- 45
Savings	
School Equalization Aid	0
Medi-Cal, SSI/SSP Contributions	+ 65
Net Effect	$-7,011

B. State Government	
Costs	
Federal Revenue Sharing	$- 22
School "Recapture" Revenue; STRS Costs	- 55
Medi-Cal, SSI/SSP Contributions	- 65
Savings	
Homeowners' Exemption Payments	+ 400
Business Inventory and Miscellaneous Subventions for Property Tax Losses	+ 235
Senior Citizens Property Tax Assistance Renters Assistance, and Deferral Reimbursements	+ 65
Personal Income/Bank and Corporation Tax Revenues	+ 295
Net Effect	$+ 853

(See Appendix VIII for assumptions used in property tax calculations.)

The State could expect an increase in 1978-79 of some $295 million in personal income tax (PIT) and bank and corporation tax revenues as a result of reduced itemized deductions for property taxes paid. However, this gain may be offset (or exceeded) by reductions in PIT revenues caused by reduced taxes paid by local government employees laid off as a result of cutbacks in local services. Such reductions in income tax revenues and potential state and local health, welfare and unemployment cost increases, while likely to occur, have not been estimated here, as these would vary widely based on subsequent state and local actions.

Another factor to consider in determining net state costs is Art. XVI(8) of the Constitution, which states: "From all state revenues there shall first be set apart the monies to be applied by the state for support of the public school system and public institutions of higher education."

Depending upon judicial interpretation of this provision, the state could conceivably be mandated to make up all revenue shortfalls to school districts, a move that could cost the state as much as $3.5-4.0 billion in additional, unbudgeted expenses.

C. Replacement Funding

Any combination of state tax increases could, at the Legislature's option, theoretically be employed to mitigate local losses. However, a state tax increase is by no means assured. Revenues may be raised by eliminating existing tax expenditures (referred to by some as "tax loopholes"). The state budgetary surplus is a source of replacement funding, but largely on a one-time basis in 1978-79. The option also exists to modify state mandates upon local government, but not to provide increased revenues, as a means of reducing a local revenue squeeze.

Finally, the state may decide to take no action, and to allow local agencies to cope with their own individual fiscal problems.

State Tax Increases

If the intent is to raise upwards of $6 billion in new taxes, (in addition to the $850 million already realized by the state in savings), the three major state taxes--the sales tax, personal income tax, and bank and corporation tax--would be those most heavily relied upon. (The so-called "sin" taxes, such as the cigarette, alcohol and horseracing taxes could be raised, but the revenue produced is minimal in comparison.)

The following illustrates the extreme of reliance upon only one tax to raise varying amounts of revenue:

(1) To raise this much additional state revenue...	(2) from the sales tax alone, the total would be:*	(3) from the bank and corporation tax alone, the total tax rate would be:**	(4) from the personal tax alone, existing tax levies would be increased by:
$1 billion	6.85%	13.2%	18%
2 billion	7.75	17.5	36
3 billion	8.55	21.7	55
4 billion	9.45	26.0	72
5 billion	10.35	30.2	90
6 billion	12.05	34.5	109

*Add .5% in San Francisco, Santa Clara, Contra Costa and Alameda counties. Present rate is 6% (4.75%-state, 1.25%-local); 6.5% in above four counties.

**Present rate is 9% for corporations (banks pay an additional in-lieu tax up to 4% higher, for a maximum 13% rate).

Note: The tax rates in columns (2) and (3) are not the increase in rate needed to generate the added revenue, but rather the rate which would apply to taxpayers were the state to desire to raise the revenue in column(1) in addition to that revenue already raised by the tax at present rates. Due to the variety of PIT tax rates, column (4) shows the increase required in the tax presently paid by income taxpayers.

It should be further noted that the above figures assume no adverse impact on the state's economy or business climate from the imposition of tax rates at such a magnitude. For example, at a certain point, consumption or business activity may slacken due to the heavy tax burden, thus, reducing tax revenues actually collected below the levels indicated on the table. Further, business may leave the state if the B & C tax were to reach an intolerable level.

Using the above figures, it is possible to pick and choose various combinations of tax increases to produce a given amount. For example, to raise $6 billion on an arbitrary split of one-third sales - one-third PIT - one-third B & C, the result would be to levy a sales tax rate of 6.85% (total of 7.35% in BART counties), a PIT surcharge of 36%, and a B & C rate of 17.5%.

Conversely, a combination might be chosen that raises new revenues in roughly the same proportion as the benefit conferred by the property tax reductions (40% individual - 60% business). Such a combination might be to raise $1 million by sales tax (roughly 68% paid by individuals, 35% by business), $2 million by income tax (89% individuals, 11% business), and $3 million by the bank and corporation tax (100% business). The result would be a 6.85% sales tax rate, a 21.7% B & C rate, and an increase of 36% in PIT levies.

Repealing Tax Expenditures

Another option for raising additional state revenues is to repeal existing tax expenditures in state law. According to the State Department of Finance, over $4.2 billion in identifiable costs can be attributed to these tax expenditures. Termed by many as tax "loopholes," and by others as tax "incentives," these tax expenditures benefit a wide variety of taxpayers. While some were enacted to create incentives to invest in a certain manner, others are designed to make the tax system more progressive and reduce inequities. Thus, treatment of capital gains, and the sales tax exemptions for food and medicine are both considered tax expenditures. (See Appendix IX for the Governor's Tax Expenditure Report contained in the 1978-79 state budget).

Use of Budget Surpluses

Another alternative open to the Legislature is to appropriate all available surplus revenues to make up the local revenue shortfall. As the figures below demonstrate, however, the funds so generated would be insufficient to offset the entire anticipated $7 billion shortfall in 1978-79. Further, the available surplus funds drops significantly in 1979-80 and thereafter. Local government is left with a substantial net shortfall in any case. Such funding to local government would not occur automatically; an act of the Legislature would be required. Such an appropriation begs the question of whether

the Legislature would feel spending priorities merited funding of state programs, or funding of local programs, with the available revenues. The state may also prefer to assume the costs of certain existing local programs and administer them from the state, rather than paying local government to continue to do so at the local level.

State General Fund	1978-79(a) (in millions)	1979-80(b)
Carryover Surplus (c)	$ 3,034	$ 0
Current Revenues (d)	16,287	18,186
	19,231	18,186
Current Expenditures (e)	-13,827	-15,486
Amount available to fund local revenue losses, or fund state programs	5,494	2,700
local revenue loss	- 7,011	-8,100(f)

(a) based on 1978-79 Governor's Budget, p. A-1
(b) revenues and expenditures both increased by 12% over 1978-79, for purposes of illustration; assumes no carryover surplus
(d) includes revenue sharing; includes $853 million in 1978-79 for state savings under initiative, and $900 million in 1979-80.
(e) these expenditures are to fund, existing levels of service only, and include reserve for unencumbered balance of continuing appropriations.
(f) based on estimated $13.607 billion in property taxes under present law, and $5.512 under the initiative.

Modification of State Mandates

The Legislature could choose to grant greater budgetary flexibility to local agencies by modifying existing programs and levels of service mandated by the state upon cities, counties, schools and special districts. Counties in particular have estimated that as much as 90-95% of their budget is pre-determined by state mandates. By removing requirements or reducing standards, the state could allow local agencies to fund such programs and services at a level within their means.

IV. ANALYSIS OF PROVISIONS

The initiative is divided into three major components: a 1% limit on property tax revenues (Section 1); a "freeze" on assessments (Section 2); and voter approval requirements for future tax increases by the state (Section 3) and local government (Section 4).

The following analysis examines the various interpretations possible based on the language of the initiative. Some of the initiative's provisions are quite obscure, thus rendering a definitive interpretation impossible, short of any final judgment reached by the State Supreme Court.

The 1% Limit

> Section 1.
>
> (a) The maximum amount of any ad valorem tax on real property shall not exceed One percent (1%) of the full cash value of such property. The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.
>
> (b) The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

1. Apportionment of Rate

It is unclear how local tax rates are to be levied under the 1% limit. Section 1(a) does not expressly authorize any level of government to actually levy the 1% tax, although the county is required to collect it. It may be presumed that the county would also be required to levy the tax, but this is only one of several possible ways of apportioning property tax rates among local agencies.

A 1% limit translates into a maximum $4.00 tax rate (per $100 assessed valuation) for general purposes. Additional rates may be levied either by the local agency affected or on its behalf to pay for outstanding voter-approved bonds. The Legislative Analyst estimates that the total average property tax statewide would thus be closer to $5.00; this average rate would decline as existing indebtedness was repayed.

One way to implement the basic 1% limit would be to allow local agencies to set their rates as high as need be, so long as the countywide 1% limit is observed. Should local agencies exceed this limit--and if the Legislature chooses not to provide a uniform fund allocation rule--the county board of supervisors would apportion the rate structure to maintain the 1% limit.

Another way would be for the county itself to levy a $4.00 rate applied to the county's entire assessed valuation. Again, the funds raised would be disbursed by the board of supervisors if the Legislature did not impose an allotment plan.

There are a number of problems associated with this second approach, although it seems the more direct of the two.

First, existing maximum tax rate limits established by SB 90 (1972) would preclude all but nine counties from levying a rate as high as $4.00. (The nine are Del Norte, Los Angeles, Mendocino, Riverside, Sacramento, San Francisco, Sierra, Tulare and Yuba.) The initiative does not appear to void these statutory restrictions. Thus, if this approach were chosen, 49 counties would not be able to tax even as high as the 1% allowed.

Second, there is a question whether counties can legally give away tax revenues raised by that county. Under existing law, such revenues must be used for "county purposes." Would the allocation to and use of funds by another local agency be a "county purpose"? A constitutional question is also raised in Art. XVI Sec. 6, as to whether such an allocation would be a "gift of public funds." At the least, a change in statutes would be required to authorize such allocations.

Third, such a method of taxation would be inequitable because it would violate the benefit principle of taxation. City taxpayers would be paying to support rural services, and rural taxpayers, traditionally subject to lower tax burdens, would find themselves paying for urban services.

Returning to the first option--that of agencies setting their own rates--there are still further possible means of implementation:

a. All local agencies would be limited in the aggregate to a $4.00 rate. That is, the total of all rates levied by all agencies would be limited to $4.00 (e.g., if there were 50 agencies, each could have only an 8¢ rate, on the average).

b. The tax rate for all local agencies in the aggregate on any given piece of <u>property</u> could not exceed $4.00. This would permit agencies whose boundaries overlap few other agencies to levy a higher rate than districts in areas where there are many overlapping agencies competing for the tax dollar. Many fire protection districts fall into this category.

c. The tax rate for all local agencies would be averaged, and the average could not exceed $4.00.

Each of these interpretations has grave defects. If the aggregate of the rates could not exceed $4.00, as in explanation (a), it would preclude many agencies from levying but a token tax rate, and would make it impossible for many agencies providing essential services, such as fire protection districts, to continue to function.

If the tax rates were to be averaged, as in explanation (c), this would have the effect of setting limits which would be in excess of $4.00 on some properties and below $4.00 on others. However, a rate in excess of $4.00 would be permissable only if it were held that the 1% limit applied with respect to all real property with the county, or within the state. If the limit is held applicable to each individual property, then explanation (c) would provide a maximum $4.00 tax rate on some properties and a rate less than $4.00 on others. This would not be fair to the property owner at the $4.00 rate.

Alternative (b) creates a similar inequitable outcome, but in a slightly different way. If the limit on any given property is $4.00, five agencies may have an 80¢ rate, each being applicable to the property. However, another parcel may be in only two of these districts. Since the tax rate of each district must be uniform in its application, only a $1.60 rate would be allowed on this property. Again, the limit works to set different limits on different properties--which is inequitable.

The initiative is also unclear as to the rate that might be levied by a special district or school district whose boundaries encompass more than one county. Section 1(a) refers to "districts within the counties" which seems to refer to intra-county agencies only.

2. Apportionment of Revenues

The initiative is unclear as to how the revenues "collected by the counties and apportioned according to law to the districts within the counties" would actually be divided. It is written to imply that only "districts" will share in the proceeds. Does this preclude cities and counties from receiving any property tax revenues? Does the term"districts" include both special districts and school districts?

The distribution of property tax revenues to agencies on a countywide basis is a significant departure from the current method of distributing the revenues only to the districts in which the property is located. Competition for the remaining tax revenues would be keen, in the absence of a specific allocation formula.

The initiative states that apportionment be handled "according to law." There is no such law at the present time. Thus, it appears clear that it would be incumbent upon the Legislature to enact such an apportionment plan. Apportionment could be governed by some formula measure of "need", or simply by allocating all 1% taxes in the same proportion as property taxes were apportioned in the year preceding the initiative (1977-78). (The phrase "according to law" may be construed as meaning 'as property taxes were actually allocated prior to 1978-79'.)

However, any attempt to apportion revenues centrally collected, i.e., by the county, to all the various taxing jurisdictions based on current practice would be fraught with difficulties. There are thousands of different tax code areas in the state, each with a unique combination of tax crates as presently levied. The task of drafting a reasonable apportionment scheme to the 58 counties, 414 cities, 1,342 school districts and 4,710 special districts among all those thousands of tax code areas, would be truly staggering.

In lieu of a specific allocation formula enacted by the Legislature, it appears that the apportionment decision would be left to the county boards of supervisors, or to the courts.

3. Outstanding Indebtedness

The initiative appears to prohibit the levy of property taxes to pay the interest and principal on outstanding bonds that have not been voted by the people. Section 1(b) specifically excludes from the 1% limit any property tax levies to finance voted bond issues. However, the initiative does not expressly authorize any local agency to impose an ad valorem tax for such a purpose.

Examples of non-voted bonds are redevelopment tax allocation bonds and lease-purchase revenue bonds. General obligation (G.O.)bonds are usually voted upon, but there are instances when they are not. For example, the need may arise for a city to pay a large judgment claim (Sec. 50173 Govt. Code). The initiative would prohibit levying a property tax above the 1% limit to service such bonds because they would not have been approved by a vote of the people.

A discussion of future bond issues appears on page 29 of this report, and a look at some of the consequences of bond default starts on page 45.

4. State Assessed Property

The limitation applies to the "full cash value" of real property which is subsequently defined in Section 2(a) as the "County Assessors valuation of real property." It appears that the

initiative's drafters were unaware, or chose to ignore, the fact that utilities and common carriers in California are assessed not by the county assessor, but by the State Board of Equalization. The initiative refers specifically to the "County Assessors valuation," when a simple reference to "valuation" or "full value" or "fair market value" would have sufficed.

In 1977-78, over $6.5 billion in assessed value was attributable to such properties, for nearly 6% of the total state assessed value.

By such ommission, it is unclear at this time whether state-assessed property would escape ad valorem taxes entirely, or be subject to tax in excess of the 1% limit, or be subject to tax within the 1% limit.

5. Personal Property

The limitation only applies to real property. It is not clear whether personal property (boats, inventories, some office furnishings, etc.) are to be outside the limit, or whether they are not to be taxed at all.

Although the initiative is silent on this point, Article XIII(2) of the State Constitution does provide that the tax per dollar of full value for personal property shall not exceed that on real property in the same jurisdiction. Therefore, it seems appropriate to assume that the same 1% limit apply to personal property, not pursuant to proposed Article XIIIA, but rather existing Article XIII(2). Cost estimates have been made on this assumption.

6. "Full Cash Value"

The 1% limit is with respect to "full cash value", but the initiative sets out a definition of "Fair market value". It is not clear whether the terms are synonymous.

The term "full cash value" is dated in its usage. Prior to 1975, Sec. 401 (R & T Code) referred to assessing property at 25% of its "full cash value," however, the word "cash" was dropped effective Jan. 1, 1975. Section 110 defines "full cash value" as equivalent to "fair market value," but Sec. 110.5, effective Jan. 1, 1975, defines "full value" and "fair market value" as equivalent, and ignores "full cash value."

In all cases, however, these terms mean the value of property before, not after, applicable exemptions. This has particular relevance for the next comment.

7. Homeowners' Exemption

Under existing law, the constitution provides for a homeowners' exemption (HOE) of $7,000 of the full value of a qualified residence; the statutes translate this into an exemption of $1,750 of assessed value. In practice, the homeowner is taxed based on the assessed value of the home less $1,750. Thus, the homeowner receives the benefit of the HOE in the form of a tax bill which is lower (by $188 in 1977-78, based on a $10.73 average tax rate) than it would otherwise have been. Local government then receives in state subventions the collective amounts that homeowners did not pay.

Under Proposition 13, the HOE would be reduced to 1% of of $7,000. or $70 (based on a $4.00 rate, exclusive of additional rates for existing voter-approved indebtedness, i.e., at a $5.00 rate, HOE would be worth $87.50). However, the initiative clearly states that the maximum 1% limit is calculated on "full cash value." Thus, for a $47,000 home, the tax bill would not exceed $470. What is unclear is whether the homeowner would pay all $470 (thus receiving no HOE benefit), or whether the homeowner would pay $400 and the state $70.

Does the authorization for local government to tax at 1% of "full cash value" effectively preclude operation of the HOE, even though the HOE provision in the constitution is not actually repealed? If so, then a $4.00 tax rate would, in the above example, apply to 25% of $47,000 or an assessed value of $11,750 (rather than $11,750 minus $1,750 = $10,000), for a tax of $470, or 1% of full value.

The effect of calculating tax before the HOE would be to increase taxes on some 30,000 homeowners whose residences, according to the Department of Finance, are presently appraised at $10,000 full cash value or less. All homeowners who receive a reduction in property taxes would receive $70 less than they would have received if the limit were calculated after the HOE.

In contrast, if the tax is calculated after the HOE, then the $4.00 tax rate would apply to 25% of full cash value, less $1,750. In the above example, this would produce an ad valorem property tax of $400, and a state HOE subvention payment of $70. Although local government would receive a total amount equalling 1% of full cash value, the ad valorem property tax portion of that amount would be only .85% of full cash value.

(The same principle would apply with respect to the business inventory exemption. While the local agency would still receive a total amount equal to 1% of full value, the ad valorem property tax would be only .5% of full value, while the state subvention would make up the other .5%.)

The Assessment "Freeze"

> Section 2.
>
> (a) The full cash value means the County Assessors valuation of real property as shown on the 1975-76 tax bill under "full cash value", or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.
>
> (b) The Fair market value base may reflect from year to year the inflationary rate not to exceed two percent (2%) for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

1. Assessments

Section 2(a) provides for an initial assessment "freeze"; the value of all real property would revert to the 1975-76 "County Assessor's valuation". It is unclear whether the value of state assessed property would also revert to this level.

The concluding sentence of Section 2(a), provides that "property not already assessed to the 1975-76 tax levels may be reassessed to reflect that valuation". The meaning of this statement is unclear, since whatever figure the Assessor or State Board of Equalization enters on their respective tax rolls is the assessed valuation of each property for that year. However, due to lack of resources, no county assessor is able to physically reappraise all properties annually. Thus, a property may carry the same value for several years until a new appraisal is made. It is likely that many properties in the state have not been reappraised since 1974 or before. If so, then this section appears to allow potentially significant assessment increases for these parcels.

If the property has been "purchased, newly constructed, or a change in ownership has occurred" after March 1, 1975, the assessor may reappraise the property to its actual market value. It is unclear whether such increased value would be reflected on the next succeding lien date, or whether reassessments would take place throughout the year as of the actual date of purchase, completion of construction, etc.

The 1975-76 value would be allowed to increase by the change in consumer price but not to exceed an increase of 2% annually. A decrease in value apparently may occur only when the consumer price index drops. (The last drop was -.3% in 1955.)

The consumer price index is a figure compiled by the Bureau of Labor Statistics of the United States Department of Labor to reflect the costs of living of a typical family of moderate income. The annual increase in "CPI" has not been 2% or less since 1964, when the increase was 1.6% (gains of less than 2% were relatively common in the late 50's and early 60's). CPI is not measured by individual jurisdiction. The only breakdowns within California are "Los Angeles - Long Beach", "San Francisco -Oakland" and San Diego". Further, the fair market value of real property depends upon entirely different factors than CPI, which measures changes related to the cost of food, television sets, rent, clothes, automobiles, gasoline, electricity, etc.

It is unclear whether the 2% increase may apply on an individual parcel basis, or whether it is across-the-board. Section 2(b) refers to the "Fair market value base" (emphasis), which seems to connote broadness, i.e., statewide. If such is the case, and the CPI continues to increase at 2% or greater, then all real property in the state would automatically increase by 2% in value each year.

Even if the 2% increase applied to individual parcels, it seems inconceivable that the disparity between actual market value and the partially frozen value would not act to continually force the maximum 2% increase, in an effort to eventually "catch up" with actual value. The only exception might be parcels which have declined in actual market value (see subsequent comment).

2. "Newly Constructed"
The initiative provides for reassessment of "newly constructed" property, but this term is undefined. It is unclear whether the addition of a room to a house would trigger a complete reappraisal of the entire property to present value.

If new construction does include additions, this might severely curtail even minor alterations or badly needed rehabilitation of homes, because of the fear of total reassessment.

Conversely, the term may mean that a new valuation would be placed on a property only when it is converted from unimproved land. Thus, a multi-million dollar addition to an existing factory might not be "new construction". This could present a loophole whereby billions of dollars in new construction value could escape taxation entirely.

3. "Change in Ownership"
The term "change in ownership" includes many types of transactions, such as inheritance, bankruptcy, divorce, foreclosure, dissolution of partnership, dissolution of tenancy in common, tax sale, eminent domain or condemnation.

It may become difficult to determine when a property has in fact been "purchased" or "changed ownership". It would be to the advantage of property owners to handle a sale in a concealed manner, so as to avoid reappraisal. Property might also be con-

veyed to a corporation, with changes of ownership arranged through transfers of stock in the corporation, rather than through recorded sales.

4. Declining Value Property

Many properties in California decline in value, whether through deteriorating neighborhoods, shifts in economic activity, fire, flood, etc. The initiative provides no method of adjusting assessments for such reductions in value, other than through the sale of the property. (If "new construction" were interpreted as applying to any improvement, then conceivably the owner could do some minor improvement in hopes of attracting the assessor's attention for a reassessment downwards to actual market value.)

Such overassessments would be exacerbated if it is held that the 2% increase applies without exception to all properties in the state, if the CPI meets or exceeds 2%.

In lieu of purchase or new construction, the value can theoretically be reduced if the CPI drops, however such a likelihood is remote, and the reduction would be minor in any event.

Article XIII, Section 15 of the Constitution permits the Legislature to authorize local government to reassess property physically damaged or destroyed after the lien date to which present assessment relates; this has been authorized by statute. However, Section 2(a) appears to supercede this authorization by mandating a specific level of assessment, and nowhere else in the initiative is found an equivalent authorization. Thus, fire, flood and storm-damaged property may no longer be reassessed as under present law, even if the structure was no longer left standing.

5. Timber Taxation

Since the 1975-76 local roll contained the value of standing timber, it would appear that both the property tax and the current yield tax would apply to timber after July 1, 1978, as the initiative does not repeal the timber yield tax. (This tax on the value of timber when harvested took effect in 1977 as an intended substitute for the property tax; the value of timber was exempted from the property tax effective 1977-78. This exemption was authorized by amendment to Art. XIII(3) (j) of the Constitution in 1974. The exemption was allowed only upon enactment of a qualified substitute, such as present yield tax.)

The timber yield tax rate is adjusted annually starting in 1979 to reflect the same percentage change in the property tax rates in timber counties. Thus, the yield tax rate would drop from 6% to around 3-4% in 1979, due to the impact of the 1% limit on property tax rates. The rate should remain constant at the lower level in future years.

However, local agencies are guaranteed a minimum level of revenue under the yield tax, and if the tax is unable to generate that minimum guarantee, then a "surcharge" is triggered in the coming year, at a level estimated to be sufficient to raise that minimum revenue and restore a $5 million balance to the Timber Tax Reserve Fund. Thus, the net effect is that timber would still be taxed at close to existing yield tax levels, except that the "main" rate would be smaller, and the "surcharge" rate would be larger, and on-going.

The initiative would have the practical effect of repealing the property tax exemption for timber, since the exemption was not in effect March 1, 1975. Further, by locking in value to the 1975-76 rolls, the value of timber which has since been harvested and is no longer even on the land would continue to be taxed in future years.

The element of double-taxation could be avoided only by statutory repeal by the Legislature of the timber yield tax. However, because of the need for additional revenues, there would likely be strong pressure on the part of timber-heavy local agencies to keep the yield tax to help fill in the revenue void caused by the 1% limit.

6. Williamson Act--Open Space

Property already under a Williamson Act contract on March 1, 1975, would continue to receive a preferential assessment based on its value on the 1975-76 roll, with subsequent increases of not greater than 2%, but with no provision for any decrease. Local agencies would continue to receive state subventions, which are geared to a dollar amount per acre by type of land under contract (not land value).

Depending upon whether the previous Williamson Act valuation resulted in an effective tax rate of less than 1%, or greater than 1%, the overall tax burden on the owner would either rise or fall, respectively, under the initiative.

On property placed under Williamson Act contract between March 1, 1975, and July 1, 1978, the assessed value would revert to the 1975-76, pre-contract level. In addition, restrictions as to land usage would continue to bind the owner for as long as the contract remained in effect. As long as the owner remained under contract, however, state subvention payments to the city or county would continue even though such properties would no longer receive the preferential assessment.

Both "cancellation" and "non-renewal" are short and long-term options open to the property owner for voiding a contract. However, the contract may first be declared null and void once the preferential assessment is no longer available.

Article I, Section 9 of the Constitution prohibits the passage of a law "impairing the obligation of contracts". It is unclear whether this initiative would be held as impairing the contract of a farmer who is taxed at a greater level under the initiative than previously.

There appears to be no reason why an owner would seek to enter a Williamson Act open space contract subsequent to July 1, 1978. This initiative would appear to preclude current legislative efforts at providing for preservation of prime agricultural lands with an accompanying future reduction in property tax assessments for such lands.

7. Historical Properties

In 1974 the voters approved ACA 111 (Z'Berg) which authorized a preferential assessment for properties of historical significance. SB 380 (Mills) of 1977 enacted such a law. However, the initiative requires the 1975-76 value of property to be used. Thus, the assessed value of any property placed under a historical preservation contract after January 1, 1978, would revert to its 1975-76, pre-contract level. This effectively renders the just-enacted historical property statutes null and void.

Tax Increase Vote Requirements

> Section 3
>
> From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.
>
> Section 4
>
> Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County of special district.

1. State Vote

In June of 1976 the voters approved "Proposition 5," a constitutional amendment which prescribed a majority vote, rather than a two-thirds vote, to impose state taxes on banks, corporations and insurance companies. Section 3 of this initiative reverses "Proposition 5," and requires a 2/3 vote to increase all state taxes, not just bank, corporation and insurance company taxes. (Section 4(a) of "Proposition 1" submitted to the voters at the November Election of 1973 would have done the same thing. "Proposition 1" was defeated: "Yes," 1,934,453; "No," 2,277,631.)

What should be the vote requirement to raise and lower taxes? How one answers this question depends upon one's views of representative democracy. Should the majority rule? Or do minority views deserve special protection from the majority?

"Proposition 5" was approved by a vote of 3,204,294 "Yes" to 2,188,419 "No." The Ballot Pamphlet "Argument in Favor" contained the following statement: "As long as the present law (i.e., 2/3 vote) exists, the vested interests will be able to stop true tax reform by concentrating their lobbying influence on a small minority of the Senate or Assembly. Only 14 out of the 40 Senators or 27 out of 80 members of the Assembly can completely defeat the will of the great majority of both houses." (See Appendix X for complete text of pro and con ballot arguments.)

The two-thirds vote as proposed would be an exacting requirement because it is two-thirds of the total membership and absences and abstentions are counted as NO votes. Even the majority requirement is more rigorous than the congressional requirement, which is a majority of a quorum. (Theoretically, this could be as low as 26% of the total membership).

2. "State Tax"

What is a "state tax"? Does it include contributions to unemployment insurance? Driver's license fees? Cal-Vet loan repayments? Admissions to University of California sporting events?

Would the two-thirds vote apply to measures seeking to eliminate or modify existing tax expenditures? To modify administrative or auditing practices (which might make it easier to catch tax evaders, thus increasing their taxes)?

The state is prohibited from levying an ad valorem property tax. While this poses no immediate problem, since the state has not levied such a tax for many years, it may create a future problem for the state.

Article XIII, Section 22 of the Constitution allows the state to levy property taxes up to the extent of 25% of its budget. Even after the work of the Constitutional Revision Commission, this authority was retained, because it provides some additional guarantee to those persons who buy state general obligation bonds that the state has the capacity to meet future, unforseen fiscal obligations. Removal of the state's authority to levy this tax could conceivably affect the interest rate charged for future issues of state bonds.

Is the state inheritance tax an ad valorem tax within the meaning of Section 3? The tax is computed on "clear market value" of each beneficiaries share of the property transferred, and much of this is real property. Might this mean that the inheritance (and gift) tax could no longer apply to inheritances of real property after July 1, 1978?

The state is also prohibited from levying a sales or transaction tax on the sale of real property. It is unclear whether any income taxes on such a sale, e.g., a tax on the income gain from such a sale, would be permitted under the initiative.

3. "One Subject Rule"

Article II, Section 8(d) of the constitution provides: "An initiative measure embracing more than one subject may not be submitted to the electors or have any effect."

The "one subject" provision first entered the State Constitution as "Proposition 10" in the November Election of 1948. (See Appendix XI for a copy of the "Argument in Favor" contained in the Ballot Pamphlet.) "Proposition 10" was approved by a vote of 1,973,761 "Yes" to 963,387 "No".

The Los Angeles City Attorney's office has stated: "The petition for the Jarvis/Gann Initiative had the words 'PROPERTY TAX LIMITATION' in the 'black letter' portion of its title. That certainly is one of the subjects with which it is concerned. Section 3, however, deals with other state taxes as well. It will require a two-thirds vote of each house of the Legislature in order to adopt a law which will increase revenues from state taxes....

"The 'one subject' rule for initiative constitutional amendments is designed to eliminate confusion among the voters.. It is to prevent the voters being presented with a package where they are faced with a dilemma of voting 'Yes' or 'No' on a complex measure when there are some provisions of the proposition with which they agree and some with which they disagree. Those who voted 'Yes' on 'Proposition 5' in 1976 are faced with a dilemma: if they are in favor of property tax limitation, as provided in Jarvis/Gann, they cannot have it without, in effect, restoring to the Constitution what 'Proposition 5' repealed. Voters may be strong believers in property tax reduction and just as strong believers that a heavier tax load should be shifted from property taxes to the state level. But Jarvis/Gann gives the voter no choice. In order to obtain property tax limitation the voter must also accept the proposition that it will be more difficult to shift the load to the state level. There is no necessary connection between property tax limitation and the super-majority requirement for increases in state taxes. They would appear to be two entirely separate subjects....

"The limitation on a city or county's power to impose 'special taxes' is clearly a third subject increasing the intensity of the dilemma faced by a voter whose prime concern is ad valorem property tax limitation...."

A Los Angeles Superior Court has ruled the "Political Reform Act" (Proposition 9, 1974) invalid on these grounds; that case is presently on appeal.

A proceeding has already been brought in Sacramento court to have Proposition 13 removed from the ballot on the grounds it deals with three different subjects (filed February 7 by Sup. Court Judge Bruce Sumner of Santa Ana, the former chairman of the California Constitutional Revision Commission).

There has never been a court test of the "one subject rule", although two measures were invalidated in the 1930's for faulty titles, and in a 1948 state Supreme Court decision, McFadden v. Jordan (32 Cal 2d 330), a complex initiative was ordered removed from the ballot because it amounted to a "revision" of the Constitution, rather than an amendment (which required alternate procedures which were not followed).

4. "Qualified Electors"

The local two-thirds vote requirement refers to "qualified electors," rather than "registered voters" or simply "voters."

The term "elector" is defined in the State Elections Code as "...a United States citizen 18 years of age or older and a resident of an election precinct at least 29 days prior to an election." There is no definition of "qualified elector." An elector who is not mentally incompetent or imprisoned may register to vote, and is then called a "voter" (Elections Code, Secs. 17, 18). The two-thirds vote requirement of Section 4 thus can be read as meaning two-thirds of all electors, whether registered or not.

Even if subsequent interpretation held this term to be "registered voters," those opposed to an increase in local non-property taxes could cast their votes by simply staying home. This would make increasing local taxes a practical impossibility, since total turnout of registered voters seldom exceeds 67% for local, much less general, elections, and all 67% would have to vote unanimously in favor of the proposal.

5. Local Taxation

The initiative authorizes cities, counties and special districts to authorize any "special tax" by a two-thirds vote of its "qualified electors," and appears to specifically exclude school districts from the ability to raise "special taxes" accordingly.

Section 4 also refers to imposition of such special taxes "on such district." Read literally, it appears that the district itself would be required to pay the tax.

The key to determining the potentially momentous implications of Section 4 lie in finding a definition to "special taxes." That term has no accepted meaning in the terminology of public finance. The initiative does not define the term, thus leaving clarification to the Legislature, or the courts.

There are two basic ways to view Section 4. A "restrictive" view would virtually preclude a local agency from raising any non-property tax revenues, while an "expanded powers" view would allow discretion in changing existing tax levies.

The "restrictive" view holds that "special taxes" means all non-property taxes currently levied, such as the sales tax, business tax, utility users tax, real property transfer tax, transient occupancy tax, et al. Under this view, "special taxes" would not include any tax a local agency is not presently authorized to levy.

Thus, where Section 4 states that "cities, counties and special districts, by a two-thirds vote...may impose special taxes," this interpretation would require these local agencies to obtain the approval of the voters before these taxes could again be levied after July 1, 1978. As previously indicated,

the vote requirement imposed on local government makes such approval a virtual impossibility.

This could result in a fiscal catastrophe for local agencies, as they would be stripped of all but state and federal funds, and an unknown portion of the 1% property tax.

While certainly a possible explanation, a case can also be made for a less extreme interpretation.

The "expanded powers" view holds, to the contrary, that "special taxes" implies "new" or "additional." The initiative does not appear in any way to restrict the ability of any local agency to levy any of the non-ad valorem property taxes they are presently authorized to levy by a majority vote of the governing body.

The reference to a two-thirds vote uses the word "may", implying an optional procedure. The section does not combine the words "may not." If the local agency did not need new authority to levy a tax, why would it go to a vote of the people?

Section 4 differs from Section 3 in that the State cannot increase or levy any tax without a two-thirds vote of the Legislature. Section 4 does not say that a city, county or special district may not "change" an existing tax except by a two-thirds vote, and it does not say that a city, county or special district may not impose "any" or "all" taxes except by a two-thirds vote of the qualified electors; if this were intended, then logically the same language used in Section 3 would have been employed in Section 4. Rather, Section 4 seems to imply only that "special" (read, "additional" or "new") taxes not presently available to the local agency may in fact be levied if that agency is able to secure the approval of two-thirds of its electorate.

The language in Section 4 may be seen as an expansion of the existing taxing authority for these entities, inasmuch as they are presently prohibited, either by statute or the constitution, from levying certain types of taxes, e.g., the income tax. The intent is apparently to grant this option (an admittedly outside possibility) of imposing new revenue sources to offset property tax losses, if the electorate truly desired to do so.

6. Alternative Local Revenue Sources

The ability to increase existing levies or impose already-authorized revenue sources raises significant questions about the ultimate extent of local losses among particular types of local agencies.

Charter cities, for example, have home rule taxing powers conferred by the Constitution. The initiative does not modify these powers. Thus, a charter city would reasonably be in a position to compensate for lost property taxes by substantially hiking their business license fees, utility user taxes, and even their documentary transfer tax. (The latter, although certainly a "transaction tax...on the sale of real property," is presently an authorized revenue source to charter cities; nothing in the initiative abridges the right of a charter city to levy or increase the rate of an existing levy which is authorized by home rule.)

Counties and general law cities, while less flexible than charter cities, do appear able to increase existing user charges and fees. Further, general law cities have statutory (not Constitutional) power to impose business license taxes; nothing in the initiative appears to preclude this power. Special districts are limited in their revenue raising powers by state enabling statutes, by type of district.

The state does not appear to be limited in its ability to authorize additional local revenue sources by statute. Since these would not be "state taxes", such enactment would appear to require only a majority vote of the Legislature.

Thus, the state could confer upon counties, special districts and school districts the ability to levy business license taxes, utility user taxes, or other types of taxes or fees. By using the permissive "may" instead of "shall", the door is left open for legislative authorization of "special taxes" as an alternative to the local two-thirds vote of the electorate.

7. Future Bonded Indebtedness

The initiative in Section 4 precludes citizens from voting to increase or levy any property tax. The initiative does not prevent citizens from voting appoval for a G.O. (or other) bond issue. However, even if the voter approval for the bond issue was by two-thirds of the "qualified electors," no property tax could be levied to finance it.

The initiative does not appear to preclude the issuance of non-voted revenue bonds. However, there may be difficulties experienced where a lease-back financing arrangement is contemplated, which involves repayment of bonds from rentals paid by the local agency. In light of the anticipated turmoil in municipal finance statewide, investment bankers would be extremely wary, at least initially, of an agency's ability to make payments on its leases. This might result in delays in marketing such bonds (or even voter-approved G.O. bonds).

It appears immaterial whether future bond issues are voted or non-voted. If a local agency is to finance either existing non-voted bonds, or future bonds of any kind, it would have to ultimately secure the repayment of such bonds in one of three ways:

a. Fund the debt service from the agency's 1% property tax allocation, or other existing revenues.

b. Impose a previously-authorized tax or increase the rates of existing non-property taxes to raise sufficient new revenues.

c. Go to the people and seek approval of two-thirds of the "qualified electors" to levy a revenue source not previously authorized.

IMPLEMENTATION

> Section 5
>
> This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall become effective upon the passage of this article.
>
> Section 6
>
> If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.

1. Local Administration

Local agencies would have just over 3 weeks to prepare an alternative budget and make all decisions relative to hiring and firing of personnel prior to commencement of expenditures on July 1 for fiscal year 1978-79.

The budgets of most large agencies normally require several months to prepare. The 1978-79 budgets may be ready in June, but they will be predicated upon revenue estimates under existing law, and thus have no meaning under the initiative. Unless a means of apportioning the 1% tax was immediately provided, local agencies would have no basis at all for preparing their budgets.

There are additional factors involved, such as advance notice for layoffs of employees. School teachers must by law be given such notice in the March preceding any fiscal year in which they are to be laid off. This presents a dilemma for school districts. They may have to give notice to many of their teachers in March 1978--even if they aren't subsequently laid off--in order to legally terminate them and avoid having to incur such salary costs in the 1978-79 fiscal year.

County assessors are also faced with the tremendous burden of establishing a completely new assessment roll by July 1 prior to rate-setting in September 1978. New values for all real properties (and perhaps personal properties as well) must be based on 1975-76 levels plus 2% increases, and all new construction between March 1, 1975 and the present must be identified and valued. Without immediate legal opinions or legislative action, assessors will have no common basis for reaching such interpretations. The result may be a partially completed hode-podge of assessments, with identical taxpayers in different jurisdictions receiving widely varying assessments.

2. State Vote Requirement
The two-thirds vote limitation on the Legislature takes effect upon passage. Based on timing of actual passage, this could be either June 6 or 7. It is unclear what effect this would have on measures currently in the Legislature.

For example, would a tax bill approved in the Assembly by a majority vote prior to June 6 and now in the Senate require: (1)a 2/3ds Senate vote before passage, or (2)a 2/3ds Senate vote and a 2/3ds re-vote of the Assembly, before passage.

3. Future Changes in Initiative
Article II, Section 10(c) of the Constitution states in part: "It (the Legislature) may amend or repeal an initiative statute by another statute that becomes effective only when approved by the electors unless the initiative statute permits amendment or repeal without their approval." (emphasis added) The Constitution does not address initiative constitutional amendments, but presumably this initiative could be subsequently amended by a constitutional amendment put before the voters by the Legislature.

The initiative itself is silent as to any limitations, or lack thereof, on subsequent revision of its provisions.

4. Severance Clause
Section 6 contains a severence clause, the effect of which cannot be predicted until adjudication of those sections of the initiative which are attacked in court is finally resolved.

V . EFFECTS OF PROPOSITION 13

A. Who Benefits

1. Across-the-board relief:

The 1% limit reduces property taxes "across-the-board," as follows:

1978-79	Dollars of Relief (in millions)	% of Total Relief
Homeowners	$ 2,391	34%
Business	3,940	56%
State of California*	700	10%
	$ 7,031	100%

*Reduction in tax relief payments due to lower property taxes.

2. Magnitude of relief:

General

Property taxes would be reduced by varying magnitudes, depending upon current tax rates.

Property located in counties with high property tax rates at present would receive a proportionately greater percentage reduction than property located in a county with low tax rates. Under Proposition 13, it is assumed that the total tax rate would not be less than $4.00 (the 1% limit), with increases as necessary to pay off existing voter-approved indebtedness. The Legislative Analyst has estimated a $5.00 average statewide tax rate for 1978-79 under the initiative.

Sample percentage reductions (at a $5.00 rate) are as follows :

Real Property in	With a 77-78 average rate of	Receive a % tax reduction of
Alameda Co.	$ 13.07	62%
Alpine Co.	4.75	0%*
Contra Costa Co.	11.76	57%
Los Angelas Co.	12.59	60%
Napa Co.	8.84	43%
Orange Co.	9.26	46%
Sacramento Co.	13.15	62%
Santa Clara Co.	11.01	55%
Trinity Co.	6.18	19%

*This assumes general purpose rates in Alpine County are already at or below $4.00, with the remainder for bond repayment.

Under present law, the average statewide tax rate on all property is estimated to be $10.36 in 1978-79. This would result in a statewide average reduction of 52% (at a $5.00 rate under the initiative).

Specific

For the average homeowner in 1978-79 ($52,500 home, $10.73 rate), the reduction would be $870 (see Impact on Homeowners). However, for taxpayers with larger property holdings, the tax reductions may be substantial. For example:

Firm	County Location	Approximate Amount of Reduction*
Standard Oil	Contra Costa	$13.1 million
Lockheed	Los Angeles	9.5 million
Campbell Soup	Sacramento	1.0 million
Bank of America	San Francisco	2.1 million
United Airlines	San Mateo	3.0 million
IBM	Santa Clara	6.1 million

The initiative is unclear as to whether state-assessed property is taxed under the 1% limit. However, if subsequent interpretation does include such property, the following approximate tax reductions would result:

Pacific Telephone and Telegraph	Statewide	$130.2 million
Pacific Gas and Electric Co.	Statewide	90.6 million
Southern California Edison	Statewide	53.8 million
Southern Pacific Pipe Line Co.	Statewide	2.7 million
Southern Pacific Transportation Co. (Railroad)	Statewide	12.2 million

*Based on 1977-78 data; uses average $5.00 rate under initiative, and assumes "frozen" a.v. under initiative equals 1977-78 actual a.v.

It is uncertain what percentage of the relief enjoyed by public utilities would be passed on to their consumer/ratepayers. It is quite possible that future rate increases would only be slowed, with no net reduction. For example, Pacific Telephone just recently filed a notice of intent to file a rate increase of over $450 million, the largest rate increase ever.

3. "Reverse revenue sharing":

A sizable portion of the gross property tax reductions resulting from the 1% limit would be lost by the taxpayer to the state and federal governments, in the form of higher income taxes, due to the loss of itemized deductions for property taxes paid.

Based on Franchise Tax Board estimates (See Appendix XII increased state income taxes for 1978-79 would be $295 million, and increased federal income taxes would be $1.9 billion. This total of $2.195 billion represents 31% of total intended relief.

B. Local Control and Accountability

Would the level of local concern for efficient operations and control of expenditures diminish if property taxes were drastically cut and local officials became responsible for raising only a small portion of the taxes they spend?

If the state assumed the role of funding existing local programs, would the state remain as responsive to the concerns of the average citizen as his/her local governmental bodies are at present? Citizens may find in practice that state government, due to its size alone, would generally be less accountable and less influenced by local demands for setting spending priorities or cutting overall expenditures than are local city councils, boards of supervisors or boards of trustees.

If the state were to finance what are now local programs, what measure of local control should remain vis-a-vis the state's interest in holding down costs and maintaining "quality control"? For example, if the state substantially funded K-12 education, should educational policy be set by local school districts, or the State Board and Department of Education?

C. Impact on Homeowners

Property taxes would drop substantially, the amount differing by current tax rates. The owners of the most expensive homes would get the most tax relief. (Studies by the State Franchise Tax Board have shown little or no correlation between income and home value. Thus, a wealthy person is as likely to live in an $80,000 home as a middle or lower-income person.)

A $45,000 home in 1975-76 might be reassessed to $52,500 by 1978-79 (a 50% increase) and pay a tax of $1,220 (after HOE) at a $10.73 rate under present law. Under the most liberal interpretation of the initiative, the least the homeowner's taxes would be, using the Legislative Analyst's average $5.00 tax rate, is $475 (after HOE of $87.50), for a savings of $745. After the immediate tax cut, property tax increases would not exceed 2% per year unless the home was sold. The reduction would be greater if the home had been reassessed after 1975-76.

However, the net impact on homeowners may not be so favorable.

A sizable portion of this relief will disappear as the reduction of the amount of property tax which is deductible from state and

federal income taxes will cause higher income taxes. Assume a married homeowner, with a $745 gross savings:

AGI	State Tax Increase Single	Married	Federal Tax Increase Single	Married	Net Relief Single	Married
$10,000	$ 0*	$ C *	$ 179	$ 127	$ 566	$ 618
25,000	60	52	246	194	439	499
50,000	82	82	365	298	298	365

*Under California's 100% low-income tax credit, the taxpayer would pay no state income tax.

In addition, if state (and/or local) taxes were increased to make up the loss of revenue to local government, homeowners could experience a new tax increase. If state taxes were increased to make up the loss of revenue to local government, homeowners would in all probability experience a net tax increase as they pay a smaller share of the total property tax (35%) than they do of other major taxes such as sales tax (about 55%) or income tax (about 75%).

Such reliance upon state income tax would have an additional impact, as such increases, while deductible from the federal income tax, are of course not deductible from the state's tax. Sales taxes are deductible from both state and federal income taxes.

User charges could be increased to fund services such as for water, sewage and garbage now often subsidized with property taxes. User charges are deductible from income taxes by businesses as a cost of doing business, but they are not deductible by homeowners or renters.

If significant cutbacks in police and fire protection are made, such costs would be reflected in higher insurance premiums. For example, in Citrus Heights, where the Fire Rating Class will soon be 3 (on a scale of 1-best to 10-worst) the fire insurance on a $50,000 home (structure only) is about $70. The Citrus Heights Fire District derives over 80% of its revenues from the property tax, and if the Fire Rating Class may go to 10, and that same fire insurance would cost $170. A more extreme example is Rancho Sante Fe, where the insurance on a $200,000 house and contents is $383 (FRC=5), but if the rating goes to 10, the same insurance would cost $1,196.

Any replacement taxes paid by the homeowner indirectly through partially passed on taxes levied on business would further reduce the homeowner's benefit.

D. Impact on Senior Citizen Homeowners

Senior citizen homeowners with household incomes of $20,000 or less already may receive state relief on 100% of their property taxes. The Senior Citizens Property Tax Assistance program pays for as much as 96% of taxes outright at $3,000 household income and under, dropping to 4% of taxes at $12,000 income. The Property Tax Postponement program allows payment of the remaining taxes at such future time as the homeowner is able to afford, or upon sale of home or death. Thus, the initiative provides no real increase in benefits to the low and moderate income senior citizen homeowner.

E. Impact on Mobilehomeowners

Mobilehomes remain subject to the motor vehicle in-lieu tax under the initiative, at an effective tax rate of 2%, while all other residential property would be taxed at an effective rate of 1%. The value of the mobilehome would not be frozen, but would continue to be subject to a statutory depreciation schedule. Since such values decline over time, older mobilehomes would likely be taxed at a level equivalent to real property, while newer mobilehomes would likely be taxed higher than real property. Further, mobilehomeowners would be subject to any applicable increases in state or local taxes levied in the wake of the 1% limit.

F. Impact on Renters

Renters make up 45% of all California households. Property taxes, on an average, make up 17-23% of rent payments. The amount of the tax which is passed on to renters is subject to debate and also differs with competitive conditions in local rental markets.

Rented residential property is included within the freeze and limit. The initiative contains no feature which requires landlords to pass on the tax reduction by lowering rents. Current landlords are likely to realize a shortrun windfall in excessive rents. In the long run, however, excessive rents should stimulate other landlords to enter the market, thus resulting in lower rents.

On the other hand, renters would pay their share of any new taxes or increases in state or local taxes which may be levied to cover the loss of property tax revenues. Likewise, renters would forego any local government services which may have to be cut.

A recent economic theory holds that property taxes are absorbed by the owners of capital (i.e., the landlord), and are <u>not</u> passed on in the form of higher rents to the tenants. <u>If</u> in these economic circumstances the tax was never passed on in the first place, then it is unlikely that any reductions would have a substantial impact on future rents.

G. Impact on Commercial, Industrial and Agricultural Properties

Real income properties would receive a sharp property tax rollback, the amount differing by current local tax rates. Income producing properties account for about two-thirds of the state's assessed valuation, so they would receive about 56% of the direct benefit from the tax rollback. The net effect upon business, after replacement taxes are levied and/or services are cut, is not predictable.

It is probably not feasible to increase the state bank and corporation tax rate to offset the local property tax reductions this initiative provides to business and income producing property. To offset the $3.9 billion business share would require a rate of 26% which is nearly triple the rate in any other state in the nation.

However, local agencies, especially charter cities, appear to have unlimited powers to increase or impose any tax not otherwise prohibited by the Constitution, by majority vote of the governing body. Thus, some locales may be able to recoup some or all of the business property tax reductions via alternative tax sources.

The ability for industries or individual firms to retain the property tax savings or to pass on an alternative tax would depend upon the market structure for each product, including the amount of out-of-state competition. In general, reducing the property tax would lower the current disincentive to invest in real properties in California.

H. Turnover of Property

1. Tax Shift:

The assessment freeze would shift a greater and greater percentage share of the total property tax burden to homeowners over time. This would occur because property would be reassessed to current value when sold, and homes are sold far more frequently than are business properties.

For example, the major industrial plants in this state may never be sold. They would then carry their 1975-76 assessments (plus 2% per year) indefinitely. Nationwide, single family homes have traditionally been sold on the average of every seven years. Thus, the appraised value of homes will rise more rapidly than the value of business properties.

2. Reassessment Inequities:

Identical homes in the same neighborhood would be burdened with disparate property tax loads based on the date of purchase. Yet each home would receive identical government services. Late arrivals in the neighborhood would bear a much greater burden of the costs of government than the people who owned the property in 1975 and remained there ever since.

The certainty of a substantial reassessment upon the sale of a property could place a disincentive to sell either residential or income properties (known as the "locked-in effect").

The assessment freeze could create an economic advantage over their competitors in favor of firms whose assessments are frozen at low levels.

3. Locked-in Effect:

The "locked-in" effect will discourage homeowners from moving--even if the contemplated move is to a less-expensive home--because of the built-in tax increase associated with the home being purchased. As years went be and the actual market value of property increased, some people could not afford to sell because when they re-bought the valuations would be much higher than their customary manner of living could afford. This effect would be even worse for nonhomeowners seeking to purchase their first home, because they would lack even the equity dollars a homeowner has from the sale of his/her former home, which assists in the purchase of a higher-cost home.

Mobility is penalized; those whose employment forces them to move frequently would have substantially higher taxes than those who do not move.

The locked-in effect may depress sales activity in real estate, thus reducing supply. If demand remains constant, this may have an inflationary effect on real estate prices.

I. Inflationary Impact on Property Values

The price of property includes costs of ownership, such as property taxes. The higher the property taxes, the lower the price of property; and conversely, the lower the taxes, the higher the price. Limiting property taxes would result in shifting the future costs of property forward to the current price of property. The limit on property taxes would be reflected in higher current prices for property. Owners of property realize a capital gain, while buyers of property will pay a higher initial price to compensate for the limits on taxes.

Total outlay for buyers of property would be the same in either case, however, marginal buyers might not be able to qualify for loans at the higher price.

J. Local Growth Policies

The impact of the 1% limit on development hinges on the method of apportionment enacted by the Legislature.

For example, a firm attempting to site an industrial plant in a community might have a more difficult time obtaining approval if the tax revenues to be derived from the plant are to be distributed on a countywide basis rather than only to the agencies in which the plant is to be located.

Conversely, if the allocation formula took into account locational factors to any significant measure, it could be anticipated that competition for development would exceed that presently experienced, due to the limits on what revenues would be available.

To compensate for revenue losses resulting from rate limits, local governments would thus be inclined to increase assessed valuations by whatever means possible. Programs to maintain and expand open space may be in jeopardy. Environmentally sound city and regional planning may be compromised, as local governments would be tempted to approve nearly any kind of land development to increase assessed value and lessen the revenue squeeze. This effect would be exacerbated by the fact that "new construction" receives a current (i.e., higher) valuation under the initiative.

Local governments would be especially attracted to land uses which are value "rich" and yet which demand little in services. Industrial development in general would thus be encouraged, while land uses more demanding in services, such as residential development, may be much less attractive. This is especially true for low and moderate income housing, which is presently considered unable to "pay its own way."

K. Impact on Local Government

1. Revenue Loss

In the aggregate, local government would lose $7 billion out of an anticipated $33.9 billion in total local revenues for 1978-79 (based on actual figure of $28.8 billion provided by State Controller for 1976-77, and increased by 17.7% to approximate 1978-79 levels). This represents a drop of 20.8%, or one-fifth of all local revenues.

The impact varies by local government type. The following table assumes that the 1% levies are allocated in the same proportion as are property taxes at present.

	(in millions) Total Revenues 1978-79 (est.)	Property Tax Loss	% Drop in Total Revenues
Cities	$ 8,172	$ 731	8.9%
Counties	9,019	2,159	23.9%
Special Districts	4,885	450	9.2%
School Districts	11,785	3,691	31.3%
	$33,861	$ 7,031	20.8%

For examples of the dependence of individual agencies on property taxes, see Appendix IV.

2. Local Service Requirements

The eventual allocation of revenues is crucial to determining the level of service local agencies may sustain under the initiative.

For example, the location of assessed valuation may have little or no consideration for an individual agency, if it receives its share of proceeds from one rate levied on the assessed value of the county as a whole. This would have potentially severe ramifications for certain local agencies, such as fire protection districts.

Under present law, a fire district with a major regional shopping center within its jurisdiction receives tax revenues from the high assessed value of such a facility. This increased revenue is necessary to pay for the heavy service requirements which are mandated upon the fire district by the existance of the shopping complex. If the fire district was denied this extra assessed value in deriving its tax dollars (in addition to the 1% limit), then its service requirements would be disproportionately heavy vis-a-vis the district's ability to generate revenues.

Without adequate funds to maintain services, many local governments would be forced to cut existing levels of expenditures substantially to avoid going into the red. Their expenditures would be controlled by the extent of their statutory flexibility and creativity in seeking alternative forms of revenue, and by the method of property tax apportionment enacted by the Legislature.

Further, as local costs exceed revenues available, the State and Federal governments would likely be called on to shoulder more and more of the fiscal burden of local government. Most grants-in-aid from the State and Federal level are conditional--thus further ensnaring agencies in a web of regulations that would increasingly determine the shape and procedures of local government.

Severe cutbacks could create chaos in the functioning of orderly local government. The following illustrations point out some major problems created by limits.

a. Mandated Services

Many services performed by counties are mandated by State law or by the courts. In many areas, even the level of services is mandated by state law. Cutbacks which do not account for this factor would make it difficult to maintain such mandated services in many counties, and would place them in violation of the law. In addition, local agencies may not be able to meet any new court-mandated requirements.

b. Employee Benefits

The revenue reduction and partial assessment freeze would make it difficult (and impossible in some cases) for local governments to pay employees prevailing wages, as required in some county and city charters, and as provided in union contracts.

Many cities have seriously underfunded employee pension and retirement systems, and are presently attempting to increase their payments to such systems to make them actuarily sound. Unless some alternative to the property tax was found as a means of funding pension and retirement systems, such systems might have to draw on their reserves.

Continued underfunding could ultimately result in a cut-back of benefits. This raises a problem of employees with vested rights in a retirement system. If the initiative has the effect of denying benefits to such a person, an unconstitutional impairment of contract may be charged.

c. Contracts

Existing contracts must be honored. Broken contracts would subject the local agency to lawsuits to recover the outstanding obligation, and perhaps additional damages. However, to pay off contract commitments on a timely basis may require cutbacks in other services where greater budgetary flexibility exists.

d. Unemployment Compensation

How will local governments be able to meet the costs of providing unemployment compensation (as required by AB 644 pursuant to federal law)? Not only does AB 644 require costs not currently being paid by local agencies, but such costs would be magnified in the future when and if local agencies must lay off employees due to unavoidable cutbacks brought on by the 1% limit.

e. Emergencies

What happens if there is a major flood, snowstorm, fire, earthquake or riot and additional city/county expenditures are required? Unlike previous tax limitation proposals, this initiative does not provide for the ability of local agencies to levy taxes without voter approval in order to cope with such public emergencies.

f. Uncontrolled Costs

What happens when a small county has extraordinary court costs (e.g., Chowchilla kidnapping trial)?

What happens if Congress increases employer contributions to OASDI?

What happens if the price of stamps goes up 50% in a two-year period?

What happens if a city or county runs out of land fill space? (The National League of Cities reports half of U.S. cities will run out of current solid waste disposal capacity in 1 to 5 years.)

g. Matching Funds

Many local agencies have programs in which the State and Federal Governments share the major portion of the cost. Many of these require that the County spend some local dollars in order to receive the Federal or State aid. For example,in mental health, the State will grant nine dollars for every County dollar expended. The proposed rate limits may preclude many local agencies from raising matching money for new grants, and may cause a reduction in the level of existing grants.

h. Permissive Overrides

Under existing law, local agencies are permitted to levy non-voted property tax rates in excess of their maximum rate under SB 90 (1972) for specific purposes. There is a sound rationale for each, for example: (1) honoring the costs of contractual obligations entered into prior to SB 90 (1/1/73), (2) general emergencies or disasters, (3) meeting the costs of elections, or (4) keeping up with spiraling costs of purchasing electrical power. Under the initiative, the costs of meeting such expenses must come from property tax revenues under the 1% limit, plus other available resources.

i. Population Growth

Existing law allows modification of the maximum tax rate of a local agency which experiences a rapid growth in population, with attendant demands for increased service. Under the proposed limit, fast growing jurisdictions would be especially disadvantaged in their efforts to maintain an adequate level of service, as no adjustment of the maximum rate is authorized.

In summary, it appears that local government would, in general, find it difficult to foster and maintain communities that serve the needs, desires and aspirations of citizen groups. By effectively denying the people the voting power to tax themselves for the services they desire, the initiative would restrict people in providing for their needs at the local level.

3. Default of Outstanding Bonds

According to the Senate Local Government Committee, over $1.577 billion in bonds secured by tax increments, and another $1.2 billion in lease-purchase bonds secured by facility-generated revenues, are potentially in danger of default if the proposed tax limits are enacted (see Appendix XIII).

Even if a municipality does not actually default, if investors perceive that the financial backing for the bonds is weak, the bonds would quickly drop in value, as other informed investors would be much less willing to purchase such bonds, given the apparent lack of security behind them.

George D. Friedlander of Smith,Barney,Harris,Upham & Co., in a special report issued February 3, 1978 on the Jarvis/Gann Initiative, writes: "The Jarvis/Gann Initiative, if passed, would appear to have a number of potentially onerous implications for a number of types of municipal bonds in California. Previously issued or approved local general obligation debt and "pure" revenue bonds would not be impacted and, in fact, could become stronger or more attractive (because of their special status vis-a-vis ad valorem taxation)... All other major classes of bonds could be negatively impacted by its passage, including 1) g.o.issues of the State itself, which could face a threat to its Aaa/AAA credit rating; 2) lease-rental obligations; 3) tax allocation bonds; and 4) assessment bonds. The adverse impact could include downgrading of outstanding bonds, increased costs of borrowing, and possibly in some cases, defaults. As we indicate above, not all bonds will be impacted equally, and the investor must therefore examine his holdings on a case-by-case basis..." (Municipal Bond Research: Special Report; The Jarvis/Gann Initiative, A Taxpayer Revolt in California: Implications for Municipal Bonds; p. 9).

4. Redevelopment

Tax allocation bonds issued by redevelopment agencies comprise over $900 million of the aforementioned $1.577 billion. They are non-voted, and thus are very much in jeopardy. These bonds are paid off by the tax increments produced by the redevelopment project (taxes on assessed value increases over a base period amount).

The 1978-79 level of tax increment would be reduced in two ways. First, the assessed value of the property within the project area would revert to 1975-76 levels, plus up to 2% increase for each succeeding year and new construction. Second, the general purpose property tax rates of the various jurisdictions which are levied on such property would not exceed $4.00 to $5.00, due to the 1% limit. Annual increases in increment beyond 1978-79 would be limited to 2%, plus new construction.

It appear that the projects likely to be hardest hit would be those in which all construction was finished prior to 1975-76, as repayment of the bonds for such a project depend upon significant future additions of assessed value, which would not be forthcoming under the initiative.

Projects in which the construction commenced subsequent to March 1, 1975 (especially if completed in 1978 or thereafter) would be relatively better off, since the addition of such construction to the tax rolls would be at current values. However, the 1% limit would still limit the tax rates to be applied against that value to produce the tax increment.

Also in trouble would be those projects in which tax exempt public facilities have been constructed (e.g., new city halls) and which depend on large tax increments being generated from taxable property in the same or other projects. The new, reduced tax increment would likely be insufficient to pay the way of most taxable property, much less non-taxable.

According to a 1976 study by Ralph Anderson and Associates, at least 229 projects are now underway in 111 cities and 2 counties, with another 30 projects in the planning stage. Of those underway, 25% involve tax-exempt public facilities to some extent. Over 40% anticipated all new construction to be completed prior to or during 1978.

If the reduced tax increments prove insufficient to pay the debt service on a redevelopment agency's bonds, then the city (or county) would have to either supplement the tax increment returns with general fund resources, or increase non-property taxes.

If default should occur, bond holders would have first call on all present and future tax increments from the project.

5. Lease-purchase

Lease-purchase bonds are secured by revenues produced by the facility itself. The initiative has no direct impact on the revenues produced by a facility (unless the facility was being leased by another government agency which was dependent upon property tax revenues to pay the rent).

However, if the facility is losing money and the revenues produced therefrom are insufficient to repay the debt, then if the local agency wishes to prevent default, it must subsidize debt payments from its general resources or raise non-property taxes to pay for it.

If a default should occur, the facility's revenues would go to bondholders, and ultimately, the facility might have to be sold in order to reimburse the investor's losses.

6. Assessment Bonds

Assessment bonds are issued for public improvements in a limited area, such as streets, gutters, lighting. The cost of servicing the debt is paid from assessments on the properties which receive the benefit of the improvement. The bonds generally fall into two categories: "1911 Act" bonds and "1915 Act" bonds. Bonds issued under the 1911 Act are further secured by a lien on the property receiving the benefit. "1915 Act" bonds are further secured by a promise of the issuing agency to levy ad valorem taxes at a rate not to exceed 10¢ to make up any deficiency.

Friedlander, in the abovementioned report, states that there are approximately $250 million 1915 Act bonds currently outstanding, and that "while reliance on the secondary source of security in both categories are rare, Jarvis/Gann would apparently eliminate the back-up security for "1915 Act" bonds, and therefore probably make any further issuances under this program unmarketable"(p.8).

7. Credit Ratings

The simple loss of tax base will likely result in lowered credit ratings for California local government, according to bond house sources. To the extent that an agency defaults on its indebtedness, their credit rating would drop still further. Reduced credit ratings mean increased interest rates on future borrowing, which results in increased total costs to the agency. If default becomes widespread, there may be a certain element of "guilt by association", resulting in lowered credit ratings to agencies who have not defaulted. California local agencies presently rank among the highest in the country in terms of credit ratings, with many agencies receiving coveted "AAA" status.

8. Charters

There is some question as to whether the initiative would act to amend the charters of certain cities. For example, the Los Angeles City Attorney's office contends that the 1% limit has the effect of amending the city's charter, specifically the funding provisions for the Pension and Retirement Systems. The Constitution provides a method for amending a charter, and the present initiative does not conform to that method.

9. Federal Revenue Sharing

The formula used by the Federal Government to allocate general revenue sharing (GRS) to the states and general purpose local governments within states includes relative "tax effort". Relative tax effort is the degree of reliance of a government on its own tax sources compared with other governments. The Federal Office of Revenue Sharing estimates that, under Proposition 13, California would lose a total of $67 million, of which $45 million (2/3) is a loss to cities and counties, and the projects to which these entities allocate their GRS funds.

This estimate assumes no replacement revenue; to the extent such revenues are forthcoming the loss of GRS funds would be reduced.

Of the remaining local GRS funds, the drop in "tax effort" would cause shifts among jurisdictions, principally from counties to cities. (However, if the 1% limit is interpreted as requiring the counties to levy the entire $4.00 general purpose rate themselves, and "tax effort" is measured by dollars generated--not received--then there may be the reverse effect; a shift from cities to counties.)

L. Impact on State School System

The following material was prepared by the Assembly Education Committee for inclusion in this report, and is reprinted in its entirety herein:

1. GENERAL ASSUMPTIONS

For the purposes of this analysis, and absent any other logical assumption, it is assumed that the revenues from the 1% levy for property tax purposes will be pro-rated according to the rates levied in the prior year. Existing composite rates will be compressed from their present levels to $4.00 for all purposes. Even this assumption is fraught with inconsistencies, since intra-county and intra-district rates will vary widely. Los Angeles County tax rates vary from $21.62 to $7.69, and are not uniform within school districts. The assumption is that all local taxing agencies will lose 60% of their property tax revenues, but that will vary from district to district.

As an example, using the previously cited Los Angeles County composite rates, a district located in the region with the $21.62 rate will suffer a loss of 81% while a district in the region with the $7.69 rate will suffer a loss of only 48%.

The following tabulation illustrates the present level of revenues utilized by the various sectors of education which are supported to a significant degree by property tax revenues. The figures are 1976-77 actual increased by 10% per year to reflect an estimate for 1978-79.

Districts	Total Revenues	Property Tax Revenues	Tax Reduction Under Prop.13
K-12 Districts (all expenditures)	$9.860 billion	$5.553 billion	$3.101 billion
County Superintendents	0.467 billion	0.227 billion	0.127 billion
Community Colleges	1.458 billion	0.829 billion	0.463 billion
TOTALS	$11.785 billion	$6.609 billion	$3.691 billion

The $3.691 billion figure represents the potential loss to the affected sectors of education should the Jarvis/Gann Initiative pass.

2. IMPACT ON EQUALIZATION AID PROVISIONS

Current law provides that equalization aid be paid to districts levying at least $1.00 in elementary districts and $0.80 in high school districts if they otherwise qualify for such aid. If we assume that the initiative would still enable districts to levy these rates, there should be virtually no change in state equalization aid because of the restrictions imposed by the initiative. A problem could occur if a district has a relatively low portion of the composite tax rate. Most districts have between 50 and 60 percent of the composite rate, and would be entitled (under the prorata assumption) to between $2.00 and $2.40 of the $4.00 rate authorized under the initiative. If a district has currently only 30% of the composite rate, it would only be entitled to $1.20 of the new $4.00 rate, and would not be able to levy the $1.00 and $0.80 required to qualify for equalization aid. Each composite rate in each district would need to be examined to determine the extent of this problem (such data is not readily available).

Although the foregoing indicates that districts will probably qualify for their equalization aid entitlements, they will be unable to raise the district aid portion of the foundation program. In the case of an equalization aid unified district, the tax rate required would be $3.87. If the initiative allows them only a $2.00 to $2.40 tax rate, they will be substantially short of providing even the foundation program level of funding.

AB 65 contains a provision to hold the state share of the foundation program constant by annually adjusting the computational tax rate. This slippage arresting provision will probably cause the computational tax rates to go higher than current statutory levels. It will have no impact on state aid, but is only a computational device for the determination of state aid. The computational rates will be going higher because of the restrictions on growth of assessed values imposed by the initiative, and the higher rate at which the foundation programs will be increasing (in Department of Finance parlance -- "reverse slippage").

3. IMPACT ON GUARANTEED YIELD PROGRAM (GYP)

This newly enacted device provides for partial state funding of expenditures in excess of the foundation program level. Since the allowances are based on a computed revenue limit, the state aid would still be paid out under the formula. Because of the reduced assessed valuation provided by the initiative, the state cost of funding the guaranteed yield will increase slightly. More districts will qualify for the GYP allowances.

4. IMPACT ON RECAPTURE (PYG) AND MINIMUM TAX PROVISIONS

This provision of AB 65 which proposes to transfer to the state some of the excess local property tax revenues of relatively high wealth districts is scheduled to go into effect in 1978-79. The mechanism requires the raising of tax rates to enable districts to raise the necessary payment to the state.

There are two possible interpretations of the impact of the initiative on this provision. First, the district is liable for the amount and must pay the state regardless of its inability to utilize the taxing mechanism. The second interpretation is that the district would not be liable since it would be unable, except in rare situations, to levy the tax to raise the required payment. The latter interpretation seems the most logical.

The minimum tax provision might be levied in a few instances where the composite tax rate is currently small enough to allow for increasing the present low level of tax for school purposes. Only a handful of districts are expected to be affected by the minimum tax provision, but each would have to be examined individually.

The net result of the initiative would be a substantial reduction of state revenues from these two provisions. There may be in fact no state revenues from these sources after the initiative passes. This would represent a loss of $38 million in 1978-79 increasing to $64 million in 1981-82.

5. IMPACT ON PERMISSIVE TAX LEVIES

In addition to the normal functions of school districts, many activities are funded by permissive taxes levied for specified purposes. Child Development programs, community services and other activities are funded in this manner. State funds are provided in some cases, while in other cases they are supported in total by property tax revenues. For example, community services activities are funded wholly by property tax revenues. The initiative, if activity funding by school districts is prorated across the board, would cause a 60% curtailment. More likely, districts would opt to fund the regular school program as a top priority and require sharp reductions or total curtailment of lower priority activities.

In the case of child development programs, which are partially funded by the state and user fees, the reductions would be less drastic, but could still cause substantial reductions in services.

6. IMPACT ON BONDED INDEBTEDNESS AND OTHER CAPITAL OUTLAY

The initiative would permit continuation of taxing to repay any district indebtedness previously approved by the electorate. There is no authority in the initiative for districts to undertake further bonded indebtedness and repay it through ad valorem taxation. In short, there would be no further assumption of long term debt through either district bonds or borrowing from the state. Future capital outlay would necessarily be on a current funding basis (if that were possible under the other constraints of the initiative) or through grants from the state.

7. IMPACT ON COMMUNITY COLLEGES

Community Colleges are funded primarily from two sources: State apportionments and local property taxes. Unlike the K-12 sector, this sector is governed by a maximum property tax rate (authorized 1975-76

level) rather than a revenue limit. The average community college tax rate is about 62¢. The property tax revenue contributes about 50% of the support of community colleges which is estimated at $1.4 billion for 1978-79. If the sector shares in a 60% reduction, the initiative would represent a loss of $497 million in local property tax revenues.

Some districts will no longer qualify for equalization aid (apportionments per pupil in excess of $125) since a tax rate of 35¢ is required to qualify for such aid. A 60% reduction of the average 62¢ tax rate would drop the average district below that level. Therefore, in addition to the loss of local property tax revenues, many districts would suffer a loss of equalization aid also. The extent of this problem would have to be examined on a district by district basis, but the problem would be more severe than in the K-12 sector.

Since compulsory attendance does not exist for the community college level, the options available to the districts are more numerous than K-12, because the districts could institute large layoffs, and close down campuses.

The permissive tax problem at the community college level is the same, but not as severe, since they operate with fewer such taxes. The community service tax, however, is heavily utilized and would necessarily require curtailment of activities funded in this manner.

The capital outlay problem of the K-12 sector would also spill over into this sector, and have similar effects.

8. IMPACT ON THE STATE COLLEGES AND UNIVERSITIES AND THE UNIVERSITY

Since the State Universities and Colleges and the University of California are financed without ad valorem taxes, there would be no discernible impact on their operations. To the extent that law changes would be made to provide greater funding for the other sectors, they would become competitive for limited state funds. Projected growth and expansion would necessarily be curtailed to the extent that funds were not made available. Capital outlay in this sector would presumably become a lower priority.

9. IMPACT ON CATEGORICAL AID PROGRAMS

Many state and federal programs require maintenance of effort in order to qualify for continuance of categorical aid. There is apparently no major problem in the area of compensatory funds available under Title I of the Elementary and Secondary Education Act. The maintenance of effort requirement under the federal vocational education act has provision for waiver which could be implemented in the case of enactment of the initiative. Public Law 81-874 funding (impact aid) does require a maintenance of effort, and would probably be reduced by about 15% ($20 million).

Since most state categorical aid programs require maintenance of effort, action by the Legislature would be required.

10. STATE TEACHERS RETIREMENT SYSTEM

The State Teachers' Retirement System is funded by the state, local districts and teachers. The state assists local districts in paying their share through the allocation of state aid on the basis of two different formulae: an incremental increase in the foundation program, and a formula based on tax effort to meet the STRS obligation. Because of the reduction of assessed valuation imposed by the initiative, the state cost of funding these two mechanisms will increase. If assessed value were 10% lower, these apportionments would be approximately 10% higher. The state aid for STRS assistance to districts is estimated at $157 million in 1978-79, The impact of the initiative would cost the state between $15 and $20 million.

A more serious impact of the initiative will be the ability of districts to make their required payments to the state. There simply will not be enough funds available to districts to meet their payrolls and pay their retirement contributions also.

11. IMPACT IN REGARD TO SERRANO VS PRIEST

The chaotic impact of the initiative would make it nearly impossible to determine the extent of Serrano compliance achieved by AB 65. Some of the imponderables are:

a. Revenue limits would be artificial. Districts would have the authorization to spend at the computed levels, but the constraints on their taxing authority imposed by the initiative would not allow them to tax to achieve those levels. Some districts would be able to get there; most would not even be close.

b. Foundation programs would be artificial. Although the state would be paying toward the foundation program in the same amount that it would without the initiative, the district would be unable to raise its district aid portion. It is doubtful that any equalization aid district could even spend at the foundation level.

c. The equalization provisions which were designed to impose higher taxes in high wealth districts would be rendered inoperative in the vast majority of cases. They require increased taxation when reduction of taxes is called for by the initiative.

d. The least affected district will be a high wealth district that has a high proportion of a relatively low composite tax rate. The most affected district will be a district with a relatively low proportion of a relatively high composite tax rate. As an example, a district levying a $3.00 school tax within a region which has a $5.00 composite tax rate will suffer a relatively modest 20% loss when its rate is compressed to $2.40. Meanwhile, a district levying a $4.00 tax within a region which is levying a $12.00 tax will suffer a 67% loss when its rate is compressed to $1.32.

. Impact on the State

Secondary impacts on the state depend upon local response. For example, in lieu of substitute taxes enacted pursuant to voter approval, local agencies would be forced to curtail existing levels of service. To the extent this required the termination of local government employees, state health, welfare and employment service costs would increase, and income tax revenues would decrease. Conversely, if local taxes were enacted which were deemed deductible from state income taxes (as the sales and property tax are at present), then the increase in state income taxes (due to reduced property tax deductions) would be offset to some degree.

Further state impacts would depend upon state response. For example, school equalization aid costs would increase further if the Legislature reduced the computational tax rate for school districts to insure full funding for foundation level programs.

N. Impact on State Economy

The general economic impact of the initiative is difficult to assess, and depends to a large part on the response of local agencies to their revenue losses. The following points are not inclusive, but merely illustrative of several potential impacts.

1. A maximum net reduction of taxes by some $7.0 billion would result in significantly increased disposable income for California taxpayers and increases in consumer spending. These increases would be offset by four factors:

   a. The exportation to the federal government of $1.9 billion of the total property tax reduction in the form of increased federal taxes would remove substantial resources from circulation within the state--money which would otherwise have been utilized in the public or private sector, with consequent multiplier effects.

   b. Many businesses which are national or multi-national in scope would export some or all of their increased disposable income out-of-state, or even out of the country, where its effects would be lost to California's economy.

   c. Many of the individual taxpayers receiving property tax decreases who work for local government may be laid off as a consequence of cutbacks in the levels of local services. Their increase in disposable income due to property tax relief would be exceeded by losses in disposable income due to their unemployed status.

   d. Businesses which currently sell goods and services to local governments would incur reductions in income due to cutbacks in the levels of local services.

In general, the disposable income gained by individuals and businesses is at the expense of certain other individuals and businesses associated with segments of local government which experience declines in output of public goods and services.

2. The prohibition on local property tax overrides to fund G.O. bonds would minimize new capital construction projects undertaken by local government. Public works projects constitute a significant portion of construction in the state, and such a reduction could be expected to have a general depressive effect on the California building trades industry.

3. Any reduction in municipal subsidies to mass transit with resultant cutbacks in service,would likely cause many present transit users to return to their automobiles. (Convenience and availability, not price, have been consistantly shown to be the prime motivating factors behind the public's use of mass transit.) This could lead to increases in urban congestion and pollution with attendant health and social costs.

In summary, the potential effect of the initiative on the states' general economic climate is completely unpredictable due to the vagueness of the initiative itself, and the uncertainty of state and local response. It does seem certain, however, that the initiative would cause major shifts in taxpayer burdens, reductions in the level of service of those programs currently funded by local government, and greater reliance upon taxation of income and consumption-related wealth for local government finance, as opposed to property-related wealth. The impact of the initiative on the economic forces of the state seems sure to touch the lives of all of its citizens.

* * *

Text of Jarvis/Gann

INITIATIVE MEASURE TO BE SUBMITTED DIRECTLY TO THE ELECTORS

The Attorney General of California has prepared the following title and summary of the chief purpose and points of the proposed measure:

PROPERTY TAX LIMITATION. INITIATIVE CONSTITUTIONAL AMENDMENT. Limits ad valorem taxes on real property to 1% of value except to pay indebtedness previously approved by voters. Establishes 1975-76 assessed valuation as base value of property for tax purposes. Limits annual increases in value. Provides for reassessment after sale, transfer, or construction. Requires 2/3 vote of Legislature to enact any change in state taxes designed to increase revenues. Prohibits imposition by state of new ad valorem, sales, or transaction taxes on real property. Authorizes specified local entities to impose special taxes except ad valorem, sales and transaction taxes on real property. Financial Impact: Would result in the loss of local property tax revenues of $7 billion to $8 billion annually and a reduction in state costs of about $700 million in 1978-79 and $800 million annually thereafter.

We, the undersigned, registered, qualified electors of the State of California, residents of _____ County (or City and County), present to the Secretary of State this petition proposing to add Article XIII A to the Constitution, and petition that the same be submitted to the electors of the State of California for the adoption or rejection at the next succeeding general election, or at any special statewide election held prior to that general election, or as otherwise provided by law. The following is a full and correct copy of the title and text of the proposed measure:

THE AMENDMENT.

That Article XIII A is added to the Constitution to read:

Section 1.

[a] The maximum amount of any ad valorem tax on real property shall not exceed One percent [1%] of the full cash value of such property. The one percent [1%] tax to be collected by the counties and apportioned according to law to the districts within the counties.

[b] The limitation provided for in subdivision [a] shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

Section 2.

[a] The full cash value means the County Assessors valuation of real property as shown on the 1975-76 tax bill under "full cash value", or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occured after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.

[b] The Fair market value base may reflect from year to year the inflationary rate not to exceed two percent [2%] for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

Section 3.

From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

Section 4.

Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district.

Section 5

This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall become effective upon the passage of this article.

Section 6.

If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect

APPENDIX II

HOME VALUE BY ADJUSTED GROSS INCOME AND AVERAGE NET PROPERTY TAX 1978-79 FISCAL YEAR

Adjusted Gross Income (1)	Average Net Property Tax (2)	Average Fair Market Value (3)
$ 6,250	$ 801	$ 36,863
8,750	*	*
11,250	831	37,982
13,750	915	41,126
16,250	886	40,039
18,750	995	44,105
21,250	1,146	49,739
23,750	1,243	53,343
27,500	1,462	61,489
32,500	1,721	71,145
37,500	1,737	71,750
42,500	*	*
47,500	2,441	97,998
$50,000 and over	2,611	104,342
Total Average	$ 974	$ 43,316

(1) Excluding transfer payments, such as social security, unemployment insurance, etc. Based on income earned during 1976 and reported on California personal income tax returns filed during 1977.

(2) $10.73 average tax rate

(3) Based on "fair market value" data shown on local county tax assessor's/collector's rolls for 1976-77, factored by 1.34 to obtain estimate of 1978-79 values.

*Sampling variability too great to show separately. However, total average includes these suppressed data.

Source: based on 1976 income year data from Franchise Tax Board

APPENDIX III

SUMMARY OF

PROPERTY TAX RELIEF ENACTED BY LEGISLATURE

1967 - 1977

1967	State cigarette tax revenue sharing with local government established to reduce pressure on property tax
	Senior Citizens Property Tax Assistance Law (SCPTA) established (age 65, $3,350 income limit, relief on first $5,000 of assessed value)
	Open-space conservation, special assessments for agricultural property
1968	Homeowners' exemption established at $750 of assessed value
	Household personal property exempted from property tax
	Business inventory exemption established at 15%
1969	Business inventory exemption increased to 30%
1971	SCPTA expanded (age 62, $10,000 income limit, relief on first $7,500 of assessed value)
1972	Homeowners' exemption increased to $1,750 of assessed value
	Renters' Credit established, ranging from $25-$45, based upon income
	Business inventory exemption increased to 45%
	Maximum property tax rate limits imposed on cities, counties and special districts; revenue limits placed on school districts
1973	Business inventory exemption increased to 50%
1974	Single-family homes on property zoned for residential use must be valued as that being its "highest and best use"
1975	Disabled veterans' property tax exemption of $10,000 enacted

1976	SCPTA further expanded (income limit of $12,000, relief on first $8,500 of assessed value)
	SCPTA benefits first extended to senior renters, ($5,000 income limit, assumed property tax "equivalent" of $220)
	Renters credit revised to a uniform $37 for all claimants
1977	Senior Citizens Property Tax Postponement enacted, for seniors 62 and older, with $20,000 income limit

APPENDIX IV

EXAMPLES OF LOCAL AGENCY DEPENDENCE ON PROPERTY TAXES

Counties	% of Total Revenues From Property Taxes*
Alameda	40%
Contra Costa	39%
Los Angeles	43%
Orange	36%
Sacramento	34%
San Joaquin	38%
Sonoma	40%
Tulare	32%
Cities	
Berkeley	27%
Chico	15%
Concord	18%
Martinez	37%
Pleasant Hill	0%
Fresno	20%
Bakersfield	23%
Baldwin Park	24%
Commerce	0%
Los Angeles	27%
Rolling Hills	58%
West Covina	24%
Madera	12%
Grass Valley	20%
Anaheim	15%
Sacramento	27%
San Diego	23%
San Francisco	34%
Daly City	27%
Santa Barbara	12%
San Jose	22%
Woodland	25%
Special Districts**	
Contra Costa Consolidated Fire Protection District	87%
Citrus Heights Fire Protection District	81%
Los Angeles Co. Maintenance (lighting) District #941	100%
Sacramento Co. Maintenance (lighting) District	97%
Tamalpais Community Services District	89%
East Bay Regional Park District	80%
So. Calif. Pollution Control District	0%
Los Angeles Metropolitan Water District	44%
Oxnard Harbor District	30%
Orange Co. Transit District	16%

School Districts	% of Total Revenues From Property Taxes*
Baldwin Park Unified	23%
Beverly Hills Unified	90%
San Francisco Unified	73%
Los Angeles Unified	61%
Buena Park Elementary	72%
Campbell H.S.	55%
San Diego Unified	58%

*1975-76 data, includes state subventions for homeowners and business inventory exemptions.

**These percentages are not meant to be illustrative of the impact on each type of special district, as the dependence of individual districts of the same type may vary widely.

APPENDIX V

DISTRIBUTION OF GENERAL PROPERTY TAX LEVIES BY COUNTY

(Levies and assessed values in thousands)

County	Net taxable assessed value [a] (1976)	Property tax levies [b]					Average tax rate [e] (per $100 assessed valuation)
		City	County [c]	School purpose [c]	Other districts [d]	Total	
1	2	3	4	5	6	7	8
Alameda	$4,079,727	$73,567	$130,296	$267,524	$61,704	$533,091	$13 07
Alpine	16,432	–	507	229	44	780	4.75
Amador	95,186	232	2,234	4,117	131	6,714	7.05
Butte	434,070	1,631	9,410	25,515	3,310	39,866	9.18
Calaveras	105,889	69	2,431	5,793	1,191	9,484	8.95
Colusa	109,667	272	2,379	4,427	375	7,453	6.80
Contra Costa	2,870,140	27,395	77,371	173,450	59,278	337,494	11 76
Del Norte	119,235	124	2,581	4,610	552	7,867	6.60
El Dorado	346,256	2,059	9,372	17,710	5,026	34,167	9 87
Fresno	1,683,907	15,612	56,440	96,055	12,796	180,903	10.74
Glenn	123,499	476	2,697	6,180	334	9,687	7.84
Humboldt	429,296	1,737	14,584	22,828	2,592	41,741	9.72
Imperial	289,956	2,895	7,805	16,630	835	28,165	9.71
Inyo	102,584	148	2,881	5,484	511	9,024	8.80
Kern	1,921,001	8,085	65,566	101,312	14,150	189,113	9.85
Kings	224,496	1,233	8,659	13,295	1,169	24,356	10.85
Lake	146,185	214	3,893	7,560	1,849	13,516	9.25
Lassen	69,286	187	2,234	3,715	180	6,316	9.12
Los Angeles	25,626,494	450,180	1,164,007	1,531,591	80,221	3,225,999	12.59
Madera	253,167	725	5,465	13,862	775	20,827	8.23
Marin	1,159,912	11,294	26,006	67,971	12,567	117,838	10 16
Mariposa	51,413	–	834	2,223	138	3,195	6.21
Mendocino	256,789	605	8,791	14,914	1,391	25,701	10 01
Merced	411,377	2,767	15,105	25,554	1,216	44,642	10 85
Modoc	53,749	98	1,593	2,359	212	4,262	7.93
Mono	90,880	–	2,354	3,062	1,540	6,956	7.65
Monterey	1,178,345	7,951	29,310	64,646	6,981	108,888	9.24
Napa	364,718	2,859	9,036	19,135	1,193	32,223	8.84
Nevada	195,181	445	4,289	9,511	2,384	16,629	8.52
Orange	7,696,178	77,666	123,512	455,378	56,413	712,969	9.26
Placer	444,107	1,426	10,861	25,045	5,717	43,049	9.69
Plumas	148,577	46	2,607	4,980	921	8,554	5.76
Riverside	1,813,194	14,618	55,656	108,382	26,920	205,576	11 34
Sacramento	1,790,321	20,085	77,305	111,624	26,466	235,480	13.15
San Benito	102,593	387	1,610	4,741	263	7,001	6.82
San Bernardino	2,279,311	17,144	70,064	132,510	42,881	262,599	11.52
San Diego	5,837,252	66,896	137,880	340,804	31,640	577,220	9.89
San Francisco	3,111,824	–	240,944	132,940	21,801	395,685	12.72
San Joaquin	1,084,519	10,214	42,248	57,091	8,012	117,565	10.84
San Luis Obispo	550,658	2,935	16,598	30,670	2,697	52,900	9.61
San Mateo	2,833,548	28,152	54,276	173,251	15,705	271,384	9.58
Santa Barbara	1,002,052	5,695	30,033	64,047	10,473	110,248	11.00
Santa Clara	5,048,008	56,498	128,786	348,261	22,139	555,684	11.01
Santa Cruz	638,385	2,442	17,444	39,040	4,517	63,443	9.94
Shasta	406,019	1,680	8,956	22,423	2,853	35,912	8.85
Sierra	24,707	13	890	754	143	1,800	7.29
Siskiyou	205,275	706	4,591	9,818	567	15,682	7 64
Solano	607,109	9,229	19,134	33,352	3,454	65,169	10.73
Sonoma	925,967	6,255	28,601	55,738	4,903	95,497	10.31
Stanlislaus	743,490	4,685	21,682	48,873	2,700	77,940	10.48
Sutter	229,189	1,153	6,038	12,491	1,013	20,695	9.03
Tehama	144,619	517	4,582	8,184	440	13,723	9 49
Trinity	79,066	–	1,877	2,844	163	4,884	6.18
Tulare	679,054	3,208	24,026	40,607	3,955	71,796	10 57
Tuolumne	125,585	151	3,947	7,531	842	12,471	9.93
Ventura	1,759,866	10,139	50,428	97,325	28,113	186,005	10.57
Yolo	454,512	4,954	12,868	27,257	3,289	48,368	10.20
Yuba	113,422	615	4,516	6,222	644	11,997	10.58
Totals	$83,687,264	$960,369	$2,870,090	$4,933,445	$604,289	$9,368,193	$11.19

[a] These are the assessed values on which general property taxes were actually levied in 1976–77. Excluded are exemptions totaling $12,417,486,000 as follows: homeowners' $6,551,693,000, business inventories, $3,477,666,000 and all other, $2,388,127,000.

[b] Excludes the following amounts of state reimbursement to local governments for exemptions described in footnote a: homeowners', $760,518,922 and business inventories, $381,442,987

[c] County levies for school purposes such as junior college tuition and countywide school levies are included with school purpose levies

[d] Excludes special assessments levied on limited categories of property to finance activities from which owners of such properties derive special benefits. These assessments totaled approximately $215 million

[e] Computed by dividing total levies by the assessed value shown in column 2 and multiplying by 100.

APPENDIX VI

DISTRIBUTION OF GENERAL PROPERTY TAX DOLLAR BY COUNTY

County	Property tax dollars				
	City	County[b]	School purpose[b]	Other districts	Total
1	2	3	4	5	6
Alameda	$.14	$.24	$.50	$.12	$1.00
Alpine	–	.65	.29	.06	1.00
Amador	.03	.34	.61	.02	1.00
Butte	.04	.24	.64	.08	1.00
Calaveras	.01	.26	.61	.12	1.00
Colusa	.04	.32	.59	.05	1.00
Contra Costa	.08	.23	.51	.18	1.00
Del Norte	.02	.33	.58	.07	1.00
El Dorado	.06	.27	.52	.15	1.00
Fresno	.09	.31	.53	.07	1.00
Glenn	.05	.28	.64	.03	1.00
Humboldt	.04	.35	.55	.06	1.00
Imperial	.10	.28	.59	.03	1.00
Inyo	.02	.32	.61	.05	1.00
Kern	.04	.35	.54	.07	1.00
Kings	.05	.35	.55	.05	1.00
Lake	.02	.29	.56	.13	1.00
Lassen	.03	.35	.59	.03	1.00
Los Angeles	.14	.36	.47	.03	1.00
Madera	.03	.26	.67	.04	1.00
Marin	.09	.22	.58	.11	1.00
Mariposa	–	.26	.70	.04	1.00
Mendocino	.02	.34	.58	.06	1.00
Merced	.06	.34	.57	.03	1.00
Modoc	.02	.38	.55	.05	1.00
Mono	–	.34	.44	.22	1.00
Monterey	.07	.27	.59	.07	1.00
Napa	.09	.28	.59	.04	1.00
Nevada	.03	.26	.57	.14	1.00
Orange	.11	.17	.64	.08	1.00
Placer	.03	.25	.58	.14	1.00
Plumas	.01	.30	.58	.11	1.00
Riverside	.07	.27	.53	.13	1.00
Sacramento	.09	.33	.47	.11	1.00
San Benito	.05	.23	.68	.04	1.00
San Bernardino	.07	.27	.50	.16	1.00
San Diego	.12	.24	.59	.05	1.00
San Francisco	–	.61	.34	.05	1.00
San Joaquin	.09	.36	.48	.07	1.00
San Luis Obispo	.06	.31	.58	.05	1.00
San Mateo	.10	.20	.64	.06	1.00
Santa Barbara	.05	.27	.58	.10	1.00
Santa Clara	.10	.23	.63	.04	1.00
Santa Cruz	.04	.27	.62	.07	1.00
Shasta	.05	.25	.62	.08	1.00
Sierra	.01	.49	.42	.08	1.00
Siskiyou	.04	.29	.63	.04	1.00
Solano	.14	.30	.51	.05	1.00
Sonoma	.07	.30	.58	.05	1.00
Stanislaus	.06	.28	.63	.03	1.00
Sutter	.06	.29	.60	.05	1.00
Tehama	.04	.33	.60	.03	1.00
Trinity	–	.39	.58	.03	1.00
Tulare	.04	.33	.57	.06	1.00
Tuolumne	.01	.32	.60	.07	1.00
Ventura	.06	.27	.52	.15	1.00
Yolo	.10	.27	.56	.07	1.00
Yuba	.05	.38	.52	.05	1.00
Statewide	$.10	$.31	$.53	$.06	$1.00

[a] Excludes special assessments levied on limited categories of property to finance activities from which such properties derive special benefits.

[b] Special county levies for school purposes are included under school purpose levies.

Source: 1976-77 Annual Report, State Board of Equalization

SUMMARY OF ASSESSED VALUES OF PROPERTY SUBJECT TO LOCAL GENERAL PROPERTY TAXES, ASSESSMENT RATIOS AND AVERAGE TAX RATES, 1967–68 TO 1977–78[a]

(Assessed values in millions of dollars)

Assessment agency and type of property	1967–68	1968–69	1969–70	1970–71	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78
1	2	3	4	5	6	7	8	9	10	11	12
County assessors:											
Land	16,052	17,290	19,352	20,949	22,113	23,499	24,544	26,854	29,020	32,233	36,245
Improvements	21,698	22,522	23,834	25,415	27,327	29,594	32,095	35,641	40,232	46,476	54,149
Totals	37,750	39,812	43,187	46,364	49,440	53,093	56,639	62,495	69,252	78,709	90,394
Tangible personal property	5,479	5,869	6,005	6,371	6,723	7,115	7,867	8,964	10,590	11,816	12,531
Gross tangible property totals	43,229	45,681	49,191	52,735	56,163	60,208	64,506	71,459	79,842	90,525	102,925
Exemptions:											
Homeowners' exemption	–	–	1,910	1,910	1,955	2,051	5,738	6,008	6,352	6,552	6,787
Business inventory exemption	–	–	475	997	1,057	1,124	1,920	2,589	3,094	3,434	3,605
All other exemptions[b]	1,704	1,761	1,779	1,794	1,871	1,977	1,838	1,977	2,191	2,388	2,696
Net tangible property totals:[c]											
Net of "all other exemptions"[b]	41,525	43,920	47,412	50,941	54,292	58,231	62,668	69,482	77,651	88,137	100,229
Net of all exemptions	41,525	43,920	45,027	48,034	51,280	55,056	55,010	60,885	68,205	78,131	89,836
State Board of Equalization:											
Land	362	366	415	414	408	374	404	430	422	430	423
Improvements	2,505	2,523	2,465	2,411	2,332	2,410	2,466	2,483	2,594	2,893	3,431
Totals	2,867	2,889	2,880	2,826	2,740	2,784	2,870	2,912	3,016	3,323	3,854
Tangible personal property	1,795	1,818	1,822	1,813	1,753	1,777	1,740	1,904	2,025	2,257	2,611
Gross tangible property totals	4,662	4,707	4,702	4,638	4,493	4,561	4,610	4,816	5,041	5,580	6,465
Business inventory exemptions	–	–	1	2	2	2	3	8	13	23	37
Net tangible property totals	4,662	4,707	4,702	4,637	4,491	4,559	4,607	4,809	5,028	5,557	6,428
Totals all property:											
Land	16,413	17,656	19,768	21,363	22,522	23,872	24,948	27,284	29,442	32,663	36,668
Improvements	24,204	25,045	26,299	27,827	29,659	32,004	34,561	38,124	42,826	49,369	57,580
Totals	40,617	42,701	46,067	49,190	52,180	55,876	59,509	65,408	72,268	82,032	94,248
Tangible personal property	7,274	7,687	7,827	8,184	8,476	8,892	9,607	10,868	12,615	14,073	15,143
Gross tangible property totals	47,891	50,388	53,894	57,374	60,656	64,768	69,116	76,276	84,883	96,105	109,391
Net tangible property totals:[c]											
Net of "all other exemptions"[b]	46,187	48,627	52,115	55,580	58,785	62,791	67,278	74,299	82,692	93,717	106,694
Net of all exemptions	46,187	48,627	49,729	52,671	55,771	59,614	59,617	65,693	73,233	83,687	96,264
Solvent credits[d]	6,601	–	–	–	–	–	–	–	–	–	–
Ratios of assessed to full value of locally assessed property (percent)	23.2	23.0	23.2	23.2	24.2	24.5	23.8	24.2	24.7	25.1	23.0
Statewide average tax rates (per $100 assessed valuation)	$9.90	$9.39	$9.92	$10.85	$11.43	$11.46[r]	$11.15	$11.24	$11.33	$11.19	$10.68

[a] Excludes assessments of railroad cars for application of the State's private car tax (see Tables 17A and 17B) or assessments of motor vehicles for application of the "vehicle license fee", an ad valorem excise tax administered by the Department of Motor Vehicles and exacted from owners of motor vehicles in lieu of general property tax. Also excludes property subject to special assessment or special taxation, such as airplanes, baled cotton, and documented vessels assessed at 1 percent of full value. See Table 16 for detail

[b] "All other exemptions" include those for veterans, churches, colleges, schools below college grade, hospitals, and charitable properties.

[c] Tax rates are set on assessed values which include the homeowners' and business inventory exemptions and exclude only "all other exemptions" from the gross. Taxes are actually levied on values "net of all exemptions" and the State reimburses local governments for all of the tax loss attributable to the homeowners' and business inventory exemptions.

[d] Solvent credits were exempted effective August 31, 1967.

[r] Revised.

NOTE: Detail may not add to total because of rounding.

Source: 1976-77 Annual Report
State Board of Equalization

APPENDIX VIII

ASSUMPTIONS USED IN CALCULATING

LOCAL GOVERNMENT PROPERTY TAX REVENUE LOSSES

Current Law	Actual 1974-75	1975-76	1976-77	1977-78	Projected 1978-79
Gross assessed value (millions)	$74,299	$82,692	$93,717	$106,694	$120,031
Statewide average tax rate	$11.24	$11.33	$11.19	$10.68	$10.36 c
Total property tax revenue (millions)	$ 8,351	$ 9,369	$10,487	$ 11,395	$12,435
Percent growth	--	12.2%	11.9%	9.2%[a]	9.1%
Jarvis/Gann Initiative					
Assessed value (millions):					
"Equalized" real property[b]	N.A.	$76,800	$80,640	$ 85,480	$ 91,460
Personal property	N.A.	12,288	13,720	14,766	16,612
Total		$89,088	$94,360	$ 99,841	$108,072
Maximum tax rate					$5.00 d
Maximum property tax revenues (millions)					$ 5,404
Total Local Revenue Loss (in millions; current-law revenues less proposed maximum revenues)					$ 7,031

a. Adjusted to reflect substitution of timber yield tax for tax on value of timber.

b. Based on 2 percent annual reassessment increase and estimates of value added by transfers of ownership and new construction.

c. Average homeowner rate is $10.73

d. $5.00 rate includes a maximum of $1.00 to pay for existing voter-approved indebtedness, based on statewide averages (as existing debt is repaid, this additional $1.00 will gradually be reduced and eventually eliminated)

Source: Legislative Analyst

Tax Expenditures

In recent years, tax expenditures have become recognized as being essentially equivalent to direct expenditures. The California Legislature recognized the need for regular examination of these expenditure items by enacting Chapter 1762, Statutes of 1971, which directed the Department of Finance to prepare a biennial report of tax expenditures. Chapter 575, Statutes of 1976, requires the Department of Finance to prepare a report describing the deductions, credits, exclusions, exemptions and preferential tax rates (herein referred to as tax expenditures) to be included in the Governor's Budget for each fiscal year beginning in an odd-numbered year. The Congressional Budget Act of 1974 required tax expenditures to be included in the federal budget commencing with fiscal 1976.

In a tax structure as complex as California's, no single statement can be used to define a tax expenditure. All tax expenditures are provisions which result in a revenue loss. However, all provisions which result in a revenue loss are not necessarily tax expenditures. Generally speaking, the basis of each tax is used as the starting point for determining tax expenditures. For example, the sales tax is imposed on the privilege of selling tangible personal property at retail. This is accepted as the sales tax base, and any sales which are not included under this basic provision (such as sales of real property, services and sales for resale) are not considered tax expenditures.

Preferential rates exist only when different sets of rates apply to similar tax bases. The one-half of one percent gross premiums tax on annuity premiums, for example, is considered a preferential rate since other lines of insurance are taxed at 2.35 percent. Progressive rate structures, however, do not constitute preferential rates. Progressive rates are considered to be part of the basic structure of California's inheritance, gift, and income taxes.

Any exemption specifically provided for in the budget process is not counted as a tax expenditure. The homeowners' property tax exemption or the business inventory exemption are examples of this type of exemption. For state tax purposes, any exemption or exclusion required by the Constitution or laws of the United States is not a tax expenditure. An example of this situation is the income tax exemption for interest on United States obligations. Generally speaking, these are items which are not directly controlled at the state or local level. Provisions changing tax payment dates, penalties, or interest are not considered to be tax expenditures. Deductions for business expenses are not tax expenditures, unless the deduction in any one year exceeds the actual cost.

Even using the above definition there is substantial room for disagreement. The Federal Government, for example, does not consider the personal exemption or the minimum standard deduction to be tax expenditures. Rather, they are defined under the income tax to be features of the basic or normal income tax structure—they simply establish minimum levels of income not to be taxed. In this report, the state's counterparts to these two items—the credit for personal exemption and the standard deduction—are not considered to be part of the normal tax structure, and are therefore counted as tax expenditures. The important point is that arguments can be made for either case.

Tax expenditures are often enacted to achieve a social or economic goal in addition to the tax subsidy involved. Over the years, however, the stated objectives may or may not have been attained or priorities may have changed. Thus, the need for the subsidy may not exist. For the most part, tax expenditures have been enacted for one or more of the following reasons: to conform with the federal system or changes in federal law, to remove inequities from the tax structure, to facilitate the administration of the tax, and to grant tax reductions to individuals, business, or certain organizations and groups.

To evaluate and compare tax expenditures

with direct expenditures, the review should answer the following questions regarding each tax expenditure:

1. Is the expenditure achieving the goals specified?
2. Could equal or better results be obtained by other means?
3. Would a greater or lesser expenditure significantly vary the results being obtained?
4. Is the goal of the tax expenditure worth pursuing in the coming years?
5. Are there higher priority uses for the expenditure funds?

MAJOR TAX EXPENDITURES

The following table summarizes the 1978–79 major tax expenditures. Estimates were made on each tax expenditure individually and no allowance was made for their interaction. In some areas it is very difficult to obtain data for estimating tax expenditures. A variety of data sources were used in order to prepare estimates of these costs.

ESTIMATED ANNUAL COST
(In millions)

Sales and Use Tax

Food	
To be consumed at home	$720
Candy	40
Vending machines—33% provision	11
Gas, electricity, and water	425
Vessels and aircraft	175
Cargo and returnable containers	100
Prescription medicines	60
Leases of motion pictures	17
Newspapers	11
Periodicals	11
Option to pay on cost rather than rental receipts	11
Sales by charitable organizations	2
Vending machine operators	2
Monetized bullion	1
Optometrists and podiatrists	1
Hot food sold to airlines	1
Total	$1,588

Costs not available—Sales to U.S. government, sales to banks, common carriers, out-of-state contractors, printing materials, certain meals, property loaned to educational institutions and occasional sales.

Bank and Corporation Tax

Exploration and development expenses	$36
Accelerated depreciation	32
Research and experimental expenses	16
Depreciation of low-income rental housing	6
Percentage depletion	5
Exemption from preference tax	5
Bad debt reserves	4
Certain agricultural costs	2
Pollution equipment	1
Solar energy devices	5
Total	$112

Cost not available—Cooperatives; lessee improvements; foreign sea or air carriers; periodical circulation expenses; deferral or organization expenses; certain dividends; real estate investment trests; consolidated filing; installment sales; trademark expenses; life insurance proceeds; charitable contributions; tax exempt organizations.

Personal Income Tax

Interest expense	$440
Personal and dependent credit	270
Property, sales and vehicle taxes	230
Standard deduction	175
Employer contributions to pension plans	130
Capital gains exclusion	105
Charitable contributions	105
Employer contributions to health plans	85
Medical expenses	85
Head of household status	55
Capital gains at death	35
Income averaging	35
Expensing of certain agricultural costs	30
Compensation for injuries or sickness	25
Low income credit	25
Solar energy device credit	15
Professional corporations	10
Total	$1,855

Additional items for which costs are not available or are of less significance include: Small business first-year depreciation; periodical circulation expenses; research and experimental expenses; trademark expenses; exemption from preference tax; pollution equipment; rental value of parsonages; depreciation of child care facilities; child support and alimony payments; sale of residence; certain deferred compensation; casualty and disaster losses; meals and lodging furnished by an employer; accelerated depreciation; interest on government bonds; depreciation of low-income rental housing; taxes paid to another state; moving expenses; self-employed retirement plans; individual retirement accounts; military pay and pensions; exploration and development expenses; scholarships and fellowships; political contributions; income splitting for surviving spouse; percentage depletion; employee death benefits.

Inheritance Tax

Preferential rates: class A and B	$300
Specific exemptions	220
Charitable contributions	92
Total	$612

Cost not available—Public pensions; armed services; war risk insurance; life insurance; nonresident intangible property; open-space land valuation; powers of appointment

5 Banks, Corporations, Franchises and Insurers—Taxation

Argument in Favor of Proposition 5

Proposition 5 will eliminate from the California Constitution a sixty-five year old provision which gives favored tax treatment to banks, corporations, and insurance companies. They are taxed by a ⅔ majority vote of both houses of the State Legislature while all the rest of us are taxed by a simple majority vote.

This discriminatory and archaic provision places in the hands of a small minority (corporate wealth) the power to block tax reform measures which have overwhelming public support. Beginning as early as 1917, numerous bipartisan State Commissions have recommended repeal of this grossly unfair tax advantage for banks, corporations, and insurance companies. These included former Governor Reagan's Advisory Commission on Tax Reform.

This Commission, headed by Controller Houston Flournoy, in 1969 recommended as follows: "The Commission recommends a Constitutional Amendment which would permit the Legislature to change the bank and corporation tax by a majority vote of all the elected members—the same majority required to change most other taxes. There is no justification for placing the bank and corporation tax in a preferential position. The Legislature should be able to change this tax equally with other taxes."

THINK OF IT: THERE ARE 150,000 CORPORATIONS ENJOYING THIS TAX PRIVILEGE. THERE ARE, HOWEVER, MORE THAN 993,000 NON-CORPORATE BUSINESSES WHICH DON'T HAVE IT. ALL CALIFORNIANS PAY TAXES WITHOUT THIS SPECIAL PRIVILEGE. PROPOSITION 5 WILL PROVIDE FOR EQUAL TREATMENT BY PLACING EVERYONE UNDER THE SAME RULES.

The corporate tax structure favors larger corporations. The personal income tax laws also contain special interest tax loopholes. As long as the present law exists, the vested interests will be able to stop true tax reform by concentrating their lobbying influence on a small minority of the Senate or Assembly. Only 14 out of the 40 Senators or 27 out of the 80 members of the Assembly can completely defeat the will of the great majority of both houses.

Proposition 5, as Senate Constitutional Amendment #1, passed the State Senate 27 "ayes" to 12 "noes", the State Assembly 55 "ayes" to 20 "noes". Should you have any doubt as to its merit, a look at a few of its legislative supporters might be helpful: Governor Edmund G. Brown, Jr., Secretary of State March Fong Eu, the League of Women Voters of California, Common Cause, California Tax Reform Association, California Parent Teachers Association.

In the Legislature, its opponents included: California Manufacturing Association, California State Chamber of Commerce, and the American Insurance Association. This may also tell you something.

VOTE "YES" ON PROPOSITION 5. HELP CREATE AN OPPORTUNITY TO ELIMINATE TAX LOOPHOLES AND ENACT GENUINE AND COMPREHENSIVE TAX REFORM.

JOHN F. DUNLAP
Member of the Senate, 4th District

JOSEPH B. MONTOYA
Member of the Assembly, 60th District

DOROTHY KELLNER
President, League of Women Voters

Rebuttal to Argument in Favor of Proposition 5

First, the proponents of Proposition 5 have, typically, created "straw men" in their argument for this measure.

As the California Taxpayers Association reported last year, "the ⅔ vote requirement for banks, corporations and insurers has not been a tax haven for business at the expense of individual taxpayers. California has one of the highest bank and corporation tax rates in the nation. Indeed, California already imposes the highest aggregate tax burden on business of any state in the United States. Our corporate income (franchise) tax rate at 9%, our sales tax rate at 6%, our high property taxes and unemployment insurance taxes put us at the top of the list among all states." (emphasis added)

Second, a two-thirds vote provides protection from the "tyranny of the majority," and a two-thirds vote is required on many other matters, such as all appropriation bills, submitting constitutional amendments to the voters, overriding gubernatorial vetoes, changing legislative salaries, and changing personal property taxes.

Third, when money is not so easily available to government, each demand upon the public treasury must be considered in priority and in relation to other demands.

And finally, with reference to alleged "tax loopholes," it must be remembered that changing the two-thirds requirement would also make it easier to create such "loopholes."

Making it easier to change any tax is undesirable. What is needed is to make it harder to raise taxes, and a general reduction in government expenditures.

Thus, we again urge your "NO" vote on Proposition 5.

JOHN STULL
Member of the Senate, 38th District

WILLIAM A. CRAVEN
Member of the Assembly, 76th District

MIKE ANTONOVICH
Member of the Assembly, 41st District

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Argument Against Proposition 5

Proposition 5 is certainly appealing on the surface: "Let's make it easier to tax banks and corporations."

However, wouldn't each of us, as individual citizen taxpayers, be better served if it were made harder to raise all taxes, rather than easier to raise some?

After all, each of us as California taxpayers already share a unique distinction: Our state tax burden is 8.2% greater than the national average, and our federal tax burden is 8.7% greater than the national average.

To be sure, all taxes should be treated in the same manner and have the same vote requirements. But Proposition 5 should be opposed because it offers the wrong solution.

RATHER THAN LOWERING THE VOTE REQUIREMENT TO A MAJORITY TO CHANGE BUSINESS TAXES, WE SHOULD BE RAISING TO TWO-THIRDS THE VOTE REQUIRED TO CHANGE PEOPLE-TAXES.

It is understandable that those who freely spend or who depend upon public dollars—that is, upon taxpayer dollars—would like to see it made easier to raise bank and corporation taxes.

To be sure, teacher or other government employee organizations or legislators seeking funds for special pet projects would like to see more tax dollars flowing into the treasury to insure higher salaries and fringe benefits, or to fund a certain bureaucracy.

But if you are employed in the private sector, then perhaps you would prefer that all taxes be harder to raise, and that private enterprise not be further discouraged from settling in California, for free enterprise means jobs to those taxpayers who do not draw from the public purse.

The California Taxpayers Association has recently reported that business initially bears 50.7% of state and local taxes, including some 66% of property taxes, 30% of sales taxes, 66.8% of payroll taxes, and 100% of bank and corporation taxes (estimated at $1.1 billion in 1974–75).

It therefore seems implausible to believe that the present two-thirds vote requirement to change bank and corporation taxes has unduly benefitted private industry.

DO NOT BE MISLED ON THIS ISSUE!

The vote requirement for all taxes should be the same. But each of us, as individual taxpayers, need protections for ourselves, and we will not necessarily directly benefit from making it easier to change bank and corporation taxes. In fact, we may be hurt, because higher business taxes usually mean higher prices.

Proposition 5 should be rejected, so that we might have an opportunity to raise to two-thirds the vote needed to change all taxes.

That would be equitable, but also more protective.

Making it easier to raise any tax is not the answer; the answer is to make it harder to raise all taxes, thereby forcing government to spend more wisely and demonstrate a true need before acting to take more dollars to feed its ever-increasing appetite.

We urge a NO vote on Proposition 5.

JOHN STULL
Member of the Senate, 38th District

WILLIAM A. CRAVEN
Member of the Assembly, 76th District

MIKE D. ANTONOVICH
Member of the Assembly, 41st District

Rebuttal to Argument Against Proposition 5

Don't be misled. Proposition 5 is not about "business" taxes. It will eliminate special privileges for the favored few. Most businesses are already taxed by a majority vote. Only 13% of California business enterprises, the vested interests of corporate wealth, are protected by the mandatory ⅔ vote rule.

We do not advocate a tax increase for any sector of the economy, rather we desire equal treatment for all when taxes are raised or lowered.

Under the current ⅔ vote requirement for banks, corporations, and insurance companies, professional well-paid corporate lobbyists can easily mobilize a minority of Assembly or Senate representatives to block a proposed change in corporate tax rates. Citizens and small business owners do not have the same opportunity.

With a ⅔ vote requirement for all taxes, this situation would be even worse. A uniform ⅔ vote requirement was defeated by the electorate in November 1973. People knew that it would make it harder to bring about true tax reform.

In the past 12 years, consumer-paid taxes have continually approximated 40% of the State General Fund. The personal income tax has risen from about 13 to 34%. Bank and corporation contributions to the General Fund have decreased from 20 to 12%, a 40% drop.

In 1974, Proposition 9 began to control the excessive influence of a few well-financed corporate lobbyists. Proposition 5 is needed to remove one more vestige of special privilege in government.

Proposition 5's tax reform is long overdue. We urge a YES vote.

JOHN F. DUNLAP
Member of the Senate, 4th District

JOSEPH B. MONTOYA
Member of the Assembly, 60th District

DOROTHY KELLNER
President, League of Women Voters

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APPENDIX XI

"ONE SUBJECT RULE"

INITIATIVES. Assembly Constitutional Amendment No. 2. Adds Section 1c to Article IV of the Constitution. Provides that every constitutional amendment or statute proposed by the initiative shall relate to but one subject. Prohibits submission to the electors of initiative constitutional amendments or statutes embracing more than one subject and declares that any such initiative hereafter submitted or approved shall not go into effect.	YES NO

Argument in Favor of Assembly Constitutional Amendment No. 2

Assembly Constitutional Amendment No. 2 requires that any proposed amendment to the State Constitution submitted by initiative for approval by the voters be limited to one subject. The purposes to be achieved are:

(1) Simplification and clarification of issues presented to the voters, and

(2) A more intelligent amendment of the constitution by permitting the adopted sections to be placed in appropriate subdivisions of the constitution.

First: Today, any proposition may be submitted to the voters by initiative and it may contain any number of subjects. By this device a proposition may contain 20 good features, but have one bad one secreted among the 20 good ones. The busy voter does not have the time to devote to the study of long, wordy, propositions and must rely upon such sketchy information as may be received through the press, radio or picked up in general conversation. If improper emphasis is placed upon one feature and the remaining features ignored, or if there is a failure to study the entire proposed amendment, the voter may be misled as to the over-all effect of the proposed amendment.

Assembly Constitutional Amendment No. 2 entirely eliminates the possibility of such confusion inasmuch as it will limit each proposed amendment to one subject and one subject only.

Protection is also given to those individuals who sign the sponsoring petition. People requested to sign the sponsoring

petition will readily understand just what the entire proposition is and not be confused or misled by a maze of unrelated matters some of which are inadequately explained, purposely distorted, or intentionally concealed.

Secondly: By confining propositions to one subject they may, upon adoption, be placed in the constitution in logical sequence and by such proper classification it will not only be easier to find the section when reference is made to the constitution, but it will contribute to the making of the constitution an easier document to read, thereby making it more comprehensible and understandable by the citizen who does not have any special or technical training in the law.

In the interests of better government by keeping the voting public more fully informed concerning matters upon which it is asked to pass judgment, Assembly Constitutional Amendment No. 2 should be approved.

LAUGHLIN E. WATERS
Assemblyman, 58th Dist.

APPENDIX XII

EFFECT OF PROPOSITION 13 ON STATE AND FEDERAL INCOME TAXES

The Franchise Tax Board has estimated the following impact on state and federal income taxes based on the earlier property tax reduction estimates of $7.244 billion in 1978-79 and $8.27 billion in 1979-80 (revised estimates are $7.0 and $8.1 billion, respectively), thus, the actual impact may be slightly, although not significantly, lower than as indicated.

	1978 Income Year*	1979 Income Year*
	(millions)	
State income taxes		
Homeowners	$ 100	$ 180
Business	115	195
Subtotal	$ 215	$ 375
Federal income taxes**		
Homeowners	$ 360	$ 655
Business	815	1,380
Subtotal	$1,175	$2,035
Grand Totals	$1,410	$2,410

* 1978 income year, in general, includes the first installment of 1978-79 property taxes. 1979 income year includes the second installment of 1978-79 property taxes and the first installment of 1979-80 property taxes.

** Includes interaction of State income tax increase.

The above estimates do not include the interactive effects of resultant changes that might occur if the Jarvis-Gann initiative is enacted. These other factors could include:

(1) The shifting of local government support from property taxes to user fees (which would be deductible by businesses but not by homeowners or renters).

(2) The shifting to the State income tax (which would not be deductible on State income tax returns but would be deductible on Federal returns).

(3) The shifting to the sales tax (which would be deductible on both State and Federal income tax returns).

(4) The theoretical loss of revenues from local government employees if local services are cut and employee's jobs are eliminated.

These examples are obviously hypothetical. The most likely ultimate effect would be some combination of these and other factors.

APPENDIX XIII

POTENTIAL DEFAULT OF TAX INCREMENT BONDS

The following type of debt is secured by tax increment. The figures below provide an indication of the level of debt outstanding in selected California Counties.

1. Tax allocation bonds;
2. Reimbursement agreements to support bonds of other agencies;
3. Interim borrowing (promissory notes) --used for administration and public works improvements but not by the city where the agency puts up the money;
4. Advances from the developer;
5. Statutory obligation;
6. Direct or contingent obligation of the agency (generally an agreement with the developer).

Alameda	18,045,990
Contra Costa	50,052,744
Fresno	11,804,514
Los Angeles	1,100,000,000
Marin	5,875,000
Monterey	11,116,807
Orange	127,547,069
Riverside	9,637,742
Sacramento	38,743,753
San Bernardino	53,595,107
San Diego	37,167,000
San Francisco	17,930,000
Santa Clara	88,093,000
Ventura	8,195,434
	$1,577,806,980

Source: Senate Local Government Committee

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MAKE CHECKS PAYABLE TO THE STATE OF CALIFORNIA

Date of Analysis: 3/8/78

Analyzed by: Office of Management and Budget

CHAPTER 24 OF STATUTES OF 1978 (SB 1)

Date Enrolled: 3/2/78 Date Signed: 3/3/78

Subject: Taxation; Homeowner and Renter Property Tax Relief

What this Measure does:

- Provides tax relief to homeowners equal to at least thirty percent (30%) of existing taxes by:

  (a) removing homeowners' share of county costs for Medi-Cal, SSI/SSP, AFDC and BHI.

  (b) if the total rate reduction from (a) above does not equal at least 30%, there will be an additional reduction, so that the total property tax rate reduction will be thirty percent (30%).

- Increases renter relief by $38 to $75.

- Increases the senior citizens' property tax relief benefits and extends benefits to surviving spouses.

- Provides property tax revenue limitations on local governments using the split-rate which is authorized by SCA 6 (Proposition 8).

- Limits the percentage change in counties' payments for SSI/SSP and Medi-Cal to the percentage change in actual tax levy.

- Limits State revenues from "Major Taxes and Licenses" to an amount not to exceed an annual increase equal to the percentage increase in the California personal income multiplied by a revenue elasticity factor of 1.2.

- Requires Assessors to begin immediately determining the properties which are common to both the 1977-78 and 1978-79 roll to determine those properties which would be taxed as owner-occupied dwellings under Proposition 8 (Senate Constitutional Amendment 6).

- This Act will be repealed on June 7, 1978 unless Proposition 8 is approved by the voters and Proposition 13 (Jarvis/Gann Initiative) is rejected by the voters.

Analysis of the impact of this Measure on San Diego County:

Homeowner Tax Relief

The homeowner tax relief is accomplished through a combination of state assumption of county costs for certain health and welfare programs and a reduction in tax rates. The revenues lost by the reduction in tax rates are reimbursed by the state to the local taxing entities so that no net revenue loss will occur.

This Act adds Article 10 to Chapter 3 of Part 4 of Division 1 to the Revenue and Taxation Code which provides for the reduction of Counties' contribution to Medi-Cal and the State Supplementary Aid Program (SSI/SSP) and relieves the counties' costs for AFDC and BHI which would be paid on the owner-occupied dwelling tax roll. The article requires that the maximum allowable tax rate on owner-occupied dwellings be reduced by the equivalent amounts attributable to this reduction in county costs.

The bill also amends the formula for computing the counties' shares of Medi-Cal and State Supplementary Aid (SSI/SSP) payments by allowing the lesser of the percentage change in property tax levies or in modified assesed value from the prior fiscal year to determine the annual increase.

Below is an analysis of the possible effect of these changes on the property taxes of San Diego County in 1978-79. This analysis is based upon the same assumptions used later in calculating the maximum tax rate, in addition to the assumption that the County's total net cost of AFDC will increase 9.1% and BHI will increase by 1.5% in 1978-79. Taken together, the results of these provisions would be a reduction in the owner-occupied tax rate of $.834 or a total tax revenue reduction of $22,548,331. This results from the following:

	Estimated 1978-79 County Share	Equivalent Tax Rate	Owner-Occup. Revenue Reduction
MEDI-CAL	$15,054,438	.234	$ 6,322,864
SSI/SSP	8,572,143	.133	3,600,300
AFDC	24,165,000	.375	10,137,982
BHI	5,942,000	.092	2,487,185
TOTAL	$53,733,581	.834	$22,548,331

When deducted from the allowable maximum county tax rate on owner-occupied dwellings of $1.772 calculated below, this results in a new maximum allowable rate of $0.938 for a total allowable maximum property tax levy of $28,487,129 from owner-occupied dwellings in 1978-79.

However, with the Board of Supervisors' Budget Policy guideline of collecting no more in property taxes in 1978-79 than in 1977-78, the equivalent rate before the Health and Welfare buyout would be $1.561. Deducting the Health and Welfare equivalent tax rate of $.834, the estimated rate to be applied to owner-occupied dwellings would be $0.727 in 1978-79.

Using the same assumptions noted below for the calculation of maximum property tax rates, further assuming that the county will levy tax rates that will result in the same secured property tax revenues as in the current year ($111.3 million), and assuming all other taxing agencies will levy their maximum allowable rates and using the average 1977-78 tax rate as a base, the following would result in San Diego County in 1978-79:

1.	County Tax Rate before Health and Welfare Buyout	$1.561
2.	Average Maximum Tax Rate for all other agencies	7.073
3.	Average Tax Rate before reductions (Total of 1 & 2)	8.634
4.	Tax Rate for Health and Welfare Buyout	.834
5.	Additional Tax Rate reduction (30% of Line 3 minus Line 4)	1.756
6.	Reduced Tax Rate payable (Line 3 minus Lines 4 & 5)	6.044
7.	Amount of Tax Rate Reduction (Line 3 less Line 6)	2.590

The effect of this reduction on typical homeowners in San Diego County in 1978-79 assuming no reassessment in 1978-79 would be as follows:

HOME VALUE	ASSESSED VALUE*	1977-78 TAXES	1978-79 TAXES	TAX SAVINGS	% REDUCTION
$20,000	$ 3,250	$ 296	$ 196	$100	33.65
35,000	7,000	638	423	215	33.65
50,000	10,750	979	650	329	33.65
65,000	14,500	1,321	876	445	33.65
80,000	18,250	1,662	1,103	559	33.65

*After $1,750 Homeowners Exemption

RENTERS PROPERTY TAX RELIEF

The increase in the renters credit would have no direct effect on local government, since this credit is administered by the State through the personal income tax. This increase would increase by 103%, the relief presently given to renters and is presumed by the author to be at least equivalent to the reduction in taxes provided to homeowners through this law.

LOCAL PROPERTY TAX REVENUE LIMITATION

The property tax revenue limitation contained in the bill applies to all local taxing agencies. It is based on the split tax rate system which is authorized by Senate Constitutional Amendment 6 (Proposition 8) that will appear on the June 1978 primary ballot. Passage of this Constitutional Amendment will authorize the establishment of separate tax rates on owner-occupied dwellings from all other properties. This Bill, SB 1, will implement this split rate by applying a maximum revenue limitation on both the owner-occupied dwelling roll and the "other" roll.

The bill repeals the provisions of SB90 of 1972 which established maximum tax rates for local agencies. In their place, the bill establishes revenue limitations based on the 1977-78 tax revenues and adjusted for inflation by the Gross National Product Implicit Price Deflator for goods and services purchased by state and local governments for the first two years (1978-79 and 1979-80). After 1979-80, a California Local Agency Price Deflator, to be developed by the California Department of Industrial Relations, will be used to measure inflationary increases.

The formula used in SB 1 allows for increases in property tax revenue due to new construction. The intent of the formula is to prevent the amount of property taxes collected from existing property from exceeding the prior year's amount adjusted for inflationary increases.

The legislation allows the use of 1976-77 as an alternate base year for calculating the 1978-79 maximum tax rate. After 1978-79 the maximum rate calculations will be based on the preceding fiscal year's actual tax revenues.

Attachment I discusses the method for calculating the maximum tax rates. Following these calculations based on the assumptions noted, we estimate a maximum county tax rate on owner-occupied dwellings of $1.772 and on other property of $1.796. After application of the Health and Welfare buyout, the owner-occupied rate would be reduced to $0.938.

SSI/SSP AND MEDI-CAL REDUCTIONS

This bill provides that the annual change in Counties' share of SSI/SSP and Medi-Cal before the homeowners buyout will be equivalent to the percentage change in county property tax revenues. The law currently requires counties' share of the cost for these programs to increase by the percentage increase in modified assessed value. If, for example, the modified assessed value went up 15% in one year, the county's share of these programs increases 15% over the previous year.

This provision will be particularly beneficial to San Diego County because of the Board's stated intention to not increase property tax revenues in 1978-79. If a 16% increase in assessed value is assumed for 1978-79, the SSI/SSP and Medi-Cal contributions would increase approximately $2.2 million after the State buyout of the homeowner's share of these programs under the existing formula.

SENIOR CITIZENS' AND SURVIVING SPOUSE TAX RELIEF

The extension of the present senior citizens' tax relief to surviving spouses would have no direct effect on local government. As with the renters credit, this program is administered by the state in conjunction with the personal income tax. Attachment II compares the current senior citizens' homeowner tax relief with that provided in this law. Attachment III compares the senior citizens' renters relief.

MANDATED COSTS

The principal costs mandated by this bill are for the calculation of the "split" assessment roll by the Assessor and the calculation of maximum allowable tax rates and the tax rate reduction for homeowners by the Auditor and Controller. The bill does not appropriate funds for these or any other costs which might result from it.

STATE REVENUE LIMIT

The State Revenue Limit will unlikely have any effect on San Diego County. The provision allows the use of any State revenue in excess of the limit by a 2/3rds vote of the Legislature, or for the following purposes:

1. To pay for "additional" property tax relief programs;

2. To reduce State taxes;

3. To maintain a "prudent" surplus not to exceed 3 percent of total revenues;

4. For emergencies; or

5. To fund a revenue sharing program with local government.

With the 1.2 revenue elasticity factor in the State Revenue Limitation formula, it is unlikely there will be much, if any, revenue placed in the excess revenue fund for the above purposes. For example, the total State revenues covered by this limit in 1978-79 are estimated in the Governor's Budget to be $17.25 billion. The latest data on State personal income indicates an increase of 13.2% between August 1976 and August 1977. If we assume the same rate of annual increase for 1979-80, then the State Revenue Limit would be $17.25 billion x 113.2% x 1.2 = $23.43 billion. This is a total increase of $6.18 billion, or 36% over the 1978-79 estimate.

PREPARED BY:

John J. McTighe
Chief, Policy Analysis Section
Policy and Management Division
Office of Management and Budget
March 8, 1978

ATTACHMENT I

CALCULATION OF PROPERTY TAX REVENUE LIMITATION

We have prepared an analysis of the possible effect of the revenue limitation provided in SB 1 on San Diego County's 1978-79 property taxes. It must be cautioned that this analysis is based upon certain assumptions which may not be totally accurate. These assumptions are as follows:

1. Owner-occupied dwellings constitute 42% of the total taxable assessed value on the 1977-78 secured tax roll.

2. The GNP Implicit Price Deflator will show an increase of 6.8% between January, 1977 and January, 1978.

3. The owner-occupied roll of existing properties will increase 10% on the 1978-79 secured roll.

4. There will be an increase on the owner-occupied roll of 4% in 1978-79 due to new construction.

5. There will be an increase of 12% for all properties common to the 1977-78 and 1978-79 secured roll.

6. There will be a decrease of 12.61% in the property tax revenue from the unsecured roll.

OWNER-OCCUPIED

Given the above assumptions, the maximum property tax rate allowable on owner-occupied dwellings in 1978-79 would be $1.772, down $.053 from the 1977-78 rate of $1.825. This rate would yield property tax revenues on owner-occupied dwellings of $53,815,772 up $5,197,013 from the $48,618,759 in 1977-78.* However, with the Health and Welfare buyout provided by this bill, the maximum allowable property tax revenues from owner-occupied dwellings would be reduced $22,548,331. This reduction translates into a maximum allowable tax rate of $0.938.

OTHER

Using the same assumptions noted above, the maximum property tax rate allowable on other property in 1978-79 would be $1.796, down $.029 from the 1977-78 rate of $1.825. This rate would yield

*Includes State reimbursement for homeowners property tax exemption.

property tax revenues on other property of $77,601,958, up $10,461,767 from the $67,140,191 in 1977-78. Since the Health and Welfare buyout only applies to taxes from the owner-occupied roll, there would be no reduction to the maximem rate of revenue on this roll from this buyout. However, if the Board of Supervisors were to determine to levy taxes less than the maximum allowable, there must be a reduction in both the owner-occupied and other rate of the same percentage.

ATTACHMENT II

COMPARISON OF SENIOR CITIZENS' HOMEOWNER
PROPERTY TAX ASSISTANCE

If the total household income is not more than:	EXISTING The percentage of tax on the first $8,500 of value used to provide assistance is:	SB 1 The percentage used to provide assistance is:
$3,000	96%	-
3,200	94	-
3,400	92	-
3,600	90	-
3,800	88	-
4,000	86	96%
4,200	84	94
4,400	82	92
4,600	80	90
4,800	78	88
5,000	76	86
5,200	73	84
5,400	69	82
5,600	65	80
5,800	61	78
6,000	57	76
6,200	53	73
6,400	49	70
6,600	45	67
6,800	41	64
7,000	37	61
7,200	34	58
7,400	31	55
7,600	28	52
7,800	25	49
8,000	22	46
8,200	20	43
8,400	18	40
8,600	16	38
8,800	14	36
9,000	12	34
9,200	-	32
9,400	-	30
9,500	10	-
9,600	-	28
9,800	-	26
10,000	-	24
10,500	-	22
11,000	-	20
11,500	-	18
12,000	-	15
12,500	-	12
13,000	-	10

ATTACHMENT III

COMPARISON OF SENIOR CITIZENS' RENTER PROPERTY TAX ASSISTANCE

If the total household income is not more than:	The statutory property tax equivalent is:	The percentage of the statutory property tax equivalent used to provide assistance is:	
		EXISTING	SB 1
$3,000	$250	96%	-
3,200	250	94	-
3,400	250	92	-
3,600	250	90	-
3,800	250	88	-
4,000	250	86	96%
4,200	250	84	94
4,400	250	82	92
4,600	250	80	90
4,800	250	78	88
5,000	250	76	86
5,200	250	73	84
5,400	250	69	82
5,600	250	65	80
5,800	250	61	78
6,000	250	57	76
6,200	250	53	73
6,400	250	49	70
6,600	250	45	67
6,800	250	41	64
7,000	250	37	61
7,200	250	34	58
7,400	250	31	55
7,600	250	28	52
7,800	250	25	49
8,000	250	22	46
8,200	250	20	43
8,400	250	18	40
8,600	250	16	38
8,800	250	14	36
9,000	250	12	34
9,200	250	-	32
9,400	250	-	30
9,500	250	10	-
9,600	250	-	28
9,800	250	-	26
10,000	250	8	24
10,500	250	7	22
11,000	250	6	20
11,500	250	5	18
12,000	250	4	15
12,500	250	-	12
13,000	250	-	10

SUMMARY OF ARGUMENTS

The effect Proposition 13 would have on local government and individuals in California must be understood by the voters if an informed choice is to be made in June. To accomplish this important educational process, all views must be given a fair hearing. For this reason, the League has prepared the following summary of pro and con arguments about Proposition 13.

Advantages to Property Owners and Renters

1. Homeowners will receive $2.3 billion in property tax relief. (Excluding losses to federal and state income taxes.)

2. Businesses will receive $3.9 billion in property tax relief. (Excluding losses to income taxes.)

3. Growth in property taxes will be curtailed by freezing assessment growth at 2% a year.

4. Rents may be positively affected in some areas, depending on the competitiveness of the local rental market.

5. A 2/3 voting requirement will make it more difficult to increase state and local taxes.

6. Placing property tax limitation and other provisions of Proposition 13 in the State Constitution prohibits the Legislature from altering the changes that will be accomplished.

Advantages to Local Government

1. Severely curtailed revenues will force local government to eliminate unnecessary expenditures.

2. Increased difficulty in raising local taxes will provide additional incentive for economies in government.

3. The initiative provides a shock, if one is needed, to realign government priorities in California.

Disadvantages to Property Owners and Renters

1. Homeowners will receive only 34% of the property tax relief. Business will receive 56% with the remaining 10% going to the state through reduced contributions to business inventory and homeowner property tax relief.

2. Proposition 13 does not guarantee that landlords will pass on property tax savings to tenants in the form of lower rents. Rentals comprise 45% of all residences in California.

3. Any increases in state and federal income taxes resulting from decreased deductions for property tax payments will erode homeowner tax savings. Of the annual $7 billion property tax reduction, approximately $295 million will be lost by taxpayers to the state and $1.9 billion to the federal government.

4. An increase in either state sales or income tax to replace local revenues will fall more heavily on homeowners than do property taxes. Homeowners pay 35% of property taxes, 55% of sales taxes and 75% of income taxes.

5. Renters are not guaranteed lower rents, yet they will share the burden of higher sales or income taxes.

6. Proposition 13 will cause a constant shift of the total property tax load from businesses to homeowners. This happens because homes are sold more often than businesses and will be reassessed and taxed at full market value after each sale.

(over)

Advantages to Local Government

4. If property tax savings are of greater benefit to business than possible negative business impacts resulting from impairment of local government services, state and local governments might benefit economically by the lower cost of doing business in California.

5. Strict revenue limitations will provide an effective argument against demands for service increases and increases in public employees' salaries and benefits.

6. Significant changes in revenue structure will create an opportunity to initiate innovative service delivery patterns. For example, short-term, renewable "enlistment" contracts for policemen might be considered.

7. Answers taxpayers' demands to local government for lower taxes.

Disadvantages to Property Owners and Renters

7. Two identical properties, receiving the same services, will have dramatically different property taxes simply because of different purchase dates.

8. Assessing newly purchased homes at full market value will penalize people purchasing homes for the first time, older citizens wanting to change homes, and homeowners forced to relocate.

9. There is no provision in the initiative to reduce the assessed valuation of property which has declined in value.

Disadvantages to Local Government

1. Local government will lose over $7 billion in annual revenues.

2. In the absence of replacement revenues, property tax reductions will force a cut in local services with no provision for assuring that basic levels of public safety and education are preserved.

3. Revenue reductions and tax rate limits will restrict the use of General Obligation Bonds and other types of bond financing, making capital improvement projects such as schools, parks and libraries more difficult and expensive to accomplish.

4. Proposition 13 will encourage the growth of "BIG" government by forcing increased local reliance on state and federal revenue sources.

5. Local control over taxation levels is restricted by imposing a stringent voting requirement on local tax increases.

6. The method of distributing property taxes is completely changed, with no guidance offered to develop a new allocation method. As a result, units of local government with high reliance on property tax revenues could lose, in some cases, over half of their funding.

7. Proposition 13 threatens the viability of redevelopment activity in California and makes default on many redevelopment obligations very possible.

California Chamber of Commerce Special Report

Jarvis - Gann initiative

Property tax collections in California would be reduced $7 to $8 billion annually. Revenue replacement biggest unanswered question.

by James P. Kennedy
Taxation Department

The Jarvis/Gann initiative is a proposed constitutional amendment designed to sharply cut back property taxes on homes and to prevent future tax increases due to rising property prices. It also contains vote requirement provisions to make increasing tax levies by the state or local agencies more difficult.

The measure has qualified for the June 6 primary election ballot. If approved by the voters, it would apply to the fiscal year starting July 1, 1978.

Sponsors of the initiative were Paul Gann, chairman of the People's Advocate, and Howard Jarvis, chairman of the United Organization of Taxpayers.

Provisions

1. Limits the property tax on real property to one percent of the "full cash value." Full cash value means the valuation on March 1, 1975. That amount may be increased by the consumers price index but not by more than two percent per year.

Exceptions

a. Properties which are either sold or "newly constructed" after March 1, 1975 are valued at the then current market price, but increases thereafter are subject to the two percent limit.

b. Taxes may be levied above the one percent limit to service bonds authorized by the voters prior to the passage of this initiative.

2. "Cities, counties and special districts" are authorized to impose "special taxes," but not additional property taxes or property transfer taxes. Any new local taxes require approval by two-thirds of the "qualified electors."

3. The one percent tax would be collected by counties and apportioned "according to law" to the "districts" within each county.

4. Any increase in state taxes must be passed by a two-thirds vote of the legislature.

5. State property taxes and property transfer taxes are prohibited.

Note: Provisions of this initiative are not entirely specific.

Limits the property tax on real property to one percent of the "full cash value." That amount may be increased by the consumers price index, but not by more than two percent per year.

Effect on local agencies

Property tax collections in California would be reduced $7 to $8 billion annually, according to the legislative analyst. The average total tax rate in California was $11.33 in 1975-76. The one percent limitation would reduce every tax rate on real property to $4. Local agencies would receive reduced federal revenue sharing apportionments since these funds are based, in part, on local tax effort.

The impact of the property tax revenue loss would vary by type of agency (city, county, special district or schools). See Table 1. The reliance upon property taxes also varies locally with spending habits and tax base.

The initiative is unclear as to how the revenues "collected by the counties and apportioned according to law to the districts within the counties" would actually be divided. The distribution of property tax revenues to agencies on a countywide basis is a significant departure from the current method of distributing the revenues only to the districts in which the property is located. Competition for the sharply reduced tax revenues would be keen. Also uncertain is whether cities and counties would be deemed "districts" and thus qualify for a portion of the reduced revenues.

After the initial property tax revenue reduction under this measure, property tax revenues would increase as a result of

new construction, reappraisal upon sales and the two percent inflation factor. The overall increase would likely be lower than the 10.8 percent average annual increase in the period 1967-68 through 1976-77.

The requirement that a two-thirds vote of the "qualified electors" approve any new local tax would make replacement of lost property taxes difficult. "Qualified electors" apparently means that two-thirds of all registered voters, not just those voting on a measure, must cast votes for a tax increase. Total voter turnout on local issues typically falls far short of two-thirds of those registered, except when the issue coincides with a gubernatorial or presidential election.

This vote requirement and the prohibition against any new property taxes, even for capital improvements, would make capital outlays, such as for schools and water treatment facilities, difficult to finance locally.

Unlike previous tax limitation proposals, this measure does not provide for the ability of local agencies to levy taxes without voter approval in order to cope with public emergencies such as for floods, earthquakes or fires.

Local agencies may apparently continue to levy taxes for the purpose of servicing bonds "approved by the voters" prior to the effective date of the initiative. The measure does not permit taxes in excess of the one percent rate for the bonds issued without voter approval which also currently rely upon property taxes for repayment.

Effect on state government

Reduced property tax rates would mean lower state reimbursements for homeowner's exemption and inventory tax exemption. Together with increased state collections of the personal income tax and bank and corporation tax, due to the decrease in deductions for property taxes, this could bring about a savings to the state of $700 to $800 million annually.

Replacement revenues

The Assembly Revenue and Taxation Committee estimates that one or some combination of the following tax increases would be necessary to replace the lost $7 to $8 billion in property taxes:

1. Repeal the 50 percent business inventory exemption and increase the bank and corporation tax rate from nine to 44 percent.
2. Increase the sales tax rate from six to 13.50 percent.
3. A personal income tax surcharge of 150 percent, in effect increasing the maximum rate from 11 to 27.5 percent.

"...if state taxes are increased to make up the loss of revenue to local government, homeowners will in all probability experience a net tax increase as they pay a smaller share of the total property tax (35%) than they do of other major taxes..."

Local agencies would probably experience faster budgetary growth if this measure results in full replacement of lost property taxes with new revenue sources such as the personal income tax, sales tax and bank and corporation tax. These alternatives have historically grown considerably faster than property tax collections.

Ten year growth of major state and local taxes population and inflation

	1967-68	1976-77	% Increase
Population	18.9M	21.2M	12.5
California CPI	102.2	174.8	71.0
Property tax levies	$4,111M	$9,368M	127.9
Bank and Corp. taxes	$ 577M	$1,642M	184.6
Sales/Use tax (6%)	$1,792M	$5,460M	204.7
Personal income tax	$ 952M	$3,754M	294.0

Income producing properties amount for about two-thirds of the state's assessed valuation, so homeowners would receive about one-third of the direct benefit from the tax rollback, about two-thirds would accrue to business.

Impact on commercial, industrial and agricultural properties

Real income properties, as well as owner-occupied residences, would receive a sharp property tax rollback, the amount differing by current local tax rates.

The one percent limitation apparently does not apply to personal properties, such as inventories and equipment. These could be taxed at higher rates than currently. Also unclear is whether properties assessed by the state fall under this limitation since the measure only refers to property assessed by county assessors.

Income producing properties account for about two-thirds of the state's assessed valuation, so homeowners would receive about one-third of the direct benefit from the tax rollback, about two-thirds would accrue to business. The net effect upon business, after replacement taxes are levied and/or services are cut, is not predictable.

The ability for industries or individual firms to retain the property tax savings or to pass on an alternative tax would depend upon the market structure for each product, including the amount of out-of-state competition. In general, reducing the property tax would lower the current disincentive to invest in real properties in California. But, increasing bank and corporation tax rates would also discourage outside investment since the state's current nine percent rate is one of the highest in the nation.

The certainty of a substantial reassessment upon the sale of properties would create a disincentive to sell income properties. The assessment freeze might also set up an economic advantage in favor of firms whose assessments are frozen at low levels.

A firm attempting to site an industrial plant in a community might have a more difficult time obtaining approval since the tax revenues to be derived from the plant are to be distributed on a countywide basis, rather than only to the agencies in which the plant is to be located.

Impact on homeowners

Property taxes on a $50,000 home, with a homeowner's exemption and a tax rate of $12, would drop from $1,290 to around $539 (assuming the homeowner's exemption is repealed). After the immediate tax cut, property tax increases would not exceed two percent per year unless the home was sold. The reduction would be greater if the home had been reassessed after 1975-76.

The tax savings to homeowners would be diminished as a result of lower property tax deductions on federal and state income tax returns. User charges may be increased to fund services such as water, sewage and garbage, now often subsidized with property taxes. Significant cutbacks in police and fire protection could be reflected in higher insurance premiums. Any replacement taxes paid by the homeowner either directly through increased personal income and sales taxes or indirectly through partially passed on taxes levied on business would further reduce the homeowner's benefit.

According the Assembly Revenue and Taxation Committee, "...if state taxes are increased to make up the loss of revenue to local government, homeowners will in all probability experience a net tax increase as they pay a smaller share of the total property tax (35%) than they do of other major

Continued on Page 6

taxes such as sales tax, income tax, etc. It is probably not feasible to increase the state bank and corporation tax rate to offset the local property tax reductions this initiative provides to business and income producing property. Just to offset the business share would require a rate of 33% which is over triple the rate in any other state in the nation."

Impact on renters

Renters made up 45 percent of California households in 1969. Property taxes, on an average, make up 15-20 percent of rent payments, but the amount of the tax which is passed on differs with local rental markets.

The initiative contains no feature requiring landlords to pass on reduced property taxes to renters. Nevertheless, renters would be required to pay the same increased alternate sales and personal taxes which might be levied.

Other considerations

1. Implications of Assessment Freeze

a. This measure may cause overassessment of properties which are declining in market value. The only way properties would be assessed downward is in the case of a sale or (unlikely) decline in the consumer price index.

b. Under the measure, properties which are "newly constructed" would be assessed at full cash value. This term is not defined. If "newly constructed" includes the remodeling of older homes or income properties, such rehabilitation and additions would be discouraged since it would trigger an upward reappraisal of the old building and land. On the other hand, if "newly constructed" excludes reconditioning and additions to properties, a loophole exists for those who greatly improve older homes or income properties rather than sell and construct new ones.

c. The assessment freeze will be of greatest benefit to homeowners who move less frequently and to owners of income properties which are sold less often. Homes now sell an average of every seven years, more often than commercial properties, industrial plants or farms.

d. Identical homes in the same neighborhood might be burdened with disparate property tax loads if one sold more recently than the other, yet each home would receive identical governmental services. There would be an incentive for homeowners to stay in a home to avoid a sharp tax increase, even if the contemplated move were to a less expensive home.

e. In 1976, legislation and a constitutional amendment were enacted, exempting standing timber from property taxation. In lieu of the property tax, a yield tax is to be paid when timber is harvested. This initiative apparently would place the timber back on the property tax rolls at its 1975-76 value without removing the yield tax.

2. Of the $7 to $8 billion in property tax reductions, about $3.2 billion would be offset by increased federal taxes resulting from the loss of the property tax deductions on individual and corporate tax returns.

3. The replacement of lost property tax revenues with new state tax revenues raises the basic questions:

a. How would the state funds be allocated? Should state taxpayers in general be asked to pay for local programs which differ greatly in cost? Cost of local programs vary for a number of reasons, including citizens' demands for quality of services, the amount of taxpayer oversight, current payments for past neglect of pension fund requirements, social makeup and geographic conditions.

b. Would the level of local concern for efficient operations and control of expenditures wane if the property taxes are drastically cut and the local officials become responsible for raising only a small portion of the taxes which they spend?

4. The initiative may violate the state constitution if the measure is deemed to contain more than one subject (property taxes and legislative vote requirement to raise other taxes).

TABLE I

Composition of revenues of local agencies
(In millions)

Source/Agency	1966-67 Amount	1966-67 Percent	1975-76 Amount	1975-76 Percent	10 year increase Amount	10 year increase Percent
Counties						
Property taxes	$ 960	38.3	$ 2,334	35.2	$ 1,374	143.1
Other local revenues	375	15.0	1,114	16.8	739	197.1
State & federal gov'ts.	1,172	46.7	3,181	48.0	2,009	171.4
Total revenues	$ 2,507	100.0	$ 6,629	100.0	$ 4,122	164.4
Cities						
Property taxes	$ 574	34.4	$ 1,071	23.9	$ 497	86.6
Other local revenues	798	47.8	2,074	46.1	1,276	159.9
State & federal gov'ts.	299	17.8	1,345	30.0	1,046	349.8
Total revenues	$ 1,671	100.0	$ 4,490	100.0	$ 2,819	168.7
School districts K-12						
Property taxes	$ 1,542	56.0	$ 3,389	51.3	$ 1,847	119.8
Other local revenues	36	1.3	112	1.7	76	211.1
State & federal gov'ts.	1,175	42.7	3,102	47.0	1,927	164.0
Total revenues	$ 2,753	100.0	$ 6,603	100.0	$ 3,850	139.8
Community college districts						
Property taxes	$ 158	61.2	$ 491	43.2	$ 333	210.8
Other local revenues	17	6.6	65	5.7	48	282.4
State & federal gov'ts.	83	32.2	582	51.1	499	601.2
Total revenues	$ 258	100.0	$ 1,138	100.0	$ 880	341.1
Special districts						
Property taxes			$ 332	45.2		
Other local revenues	N/A		160	21.8	N/A	
State & federal gov'ts.			242	33.0		
Total revenues			$ 734	100.0		

Source: Annual Reports of State Controller concerning Financial Transactions of Cities, Counties, Schools Districts and Special Districts

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Senate

CALIFORNIA LEGISLATURE

PETER H. BEHR
SENATOR
MARIN, SONOMA, MENDOCINO, LAKE, HUMBOLDT
AND DEL NORTE COUNTIES

STANDING COMMITTEES:
- CHAIRMAN, INSURANCE AND FINANCIAL INSTITUTIONS
- EDUCATION
- FINANCE
- NATURAL RESOURCES AND WILDLIFE

SELECT COMMITTEES:
- TAXATION OF TIMBER AND TIMBERLAND
- HEALTH SCIENCES EDUCATION
- INNOVATION IN THE STRUCTURE AND ADMINISTRATION OF PUBLIC EDUCATION

JOINT COMMITTEE:
- FAIRS ALLOCATION AND CLASSIFICATION

M E M O R A N D U M

TO: County Supervisors

FROM: Senator Peter H. Behr

DATE: April 10, 1978

SUBJECT: Property Tax

In response to many requests for information on Proposition 8 and SB 1, the enclosed synopsis has been prepared. You are welcome to copy all or part of the synopsis.

If you have any additional questions about these measures please contact either my Sacramento office or any of my district offices.

PHB:kfr

4-14-78 XX # 10

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Senate

CALIFORNIA LEGISLATURE

PETER H. BEHR
SENATOR
MARIN, SONOMA, MENDOCINO, LAKE, HUMBOLDT
AND DEL NORTE COUNTIES

STANDING COMMITTEES:
CHAIRMAN, INSURANCE AND FINANCIAL INSTITUTIONS
EDUCATION
FINANCE
NATURAL RESOURCES AND WILDLIFE

SELECT COMMITTEES:
TAXATION OF TIMBER AND TIMBERLAND
HEALTH SCIENCES EDUCATION
INNOVATION IN THE STRUCTURE AND ADMINISTRATION OF PUBLIC EDUCATION

JOINT COMMITTEE:
FAIRS ALLOCATION AND CLASSIFICATION

April 5, 1978

SYNOPSIS OF PROP. 8/ SB 1

SB 1 (Behr), Chapter 24-Statutes of 1978, is a comprehensive property tax relief measure approved by the Governor on March 3, 1978. Its immediate enactment hinges on the outcome of the June 6, 1978 statewide election. ON JUNE 7, SB 1 WILL BE REPEALED UNLESS PROPOSITION 8 PASSES AND PROPOSITION 13 FAILS.

SB 1 contains five separate programs. Each deals with a different aspect of the property tax problem faced by all California taxpayers.

INCREASING PROPERTY ASSESSMENTS

The problem: The rapid increase in property values, in particular the increase in value of owner-occupied homes, has resulted in greatly increased property tax bills and greatly increased revenues for local government.

Prop. 8/ SB 1: Property tax bills for business and residential property increase for one or both of two reasons: 1) an increase in assessed valuation, or 2) an increase in the property tax rate. Under Prop. 8/ SB 1 the tax rates of counties, cities and special districts must drop as property assessments increase. The provisions of the local revenue limit require that as property values rise the local agencies must lower their property tax rates so that at most they realize a 6-1/4% increase (for fiscal 78-79) over their previous year's revenue.

SB 1 specifies that annual increases in county, city and special district revenues from property taxes cannot exceed the percentage increase in the GNP index for the cost of local government services for any one year. This GNP statewide inflation index is estimated to be 6-1/4% for fiscal 78-79. The local revenue limit in Prop. 8/ SB 1 is ongoing and applies to all property. It has the effect of limiting, on a countywide average, the increase in a property owner's tax bill to 6-1/4% for 78-79.

The local revenue limit stops the growth of revenue from property taxes for counties, cities, and special districts. By permitting the property tax revenues to grow, at most, at the rate of inflation for the cost of providing government services, Prop. 8/ SB 1 requires local agencies to turn to cutting their costs when considering funding new programs. The local revenue limit has as its base year either 1976-77 or 1977-78; at the counties discretion. Both base years have already passed so any new property assessments will fall under the local revenue limitations in Prop. 8/ SB 1.

THE TREND FOR OWNER-OCCUPIED PROPERTY TO PAY AN INCREASING PERCENTAGE OF THE TOTAL PROPERTY TAX COLLECTED

The problem: Because home values rise much more rapidly than for other property, homeowners over time have paid an increasing percentage of the total property tax bill relative to business and industry.

Prop. 8/ SB 1 is the only property tax relief measure which reverses the historical trend for homeowners to bear an increasing property tax burden relative to other property. By utilizing the split tax roll (i.e. owner-occupied property/all other property) permitted under Prop. 8 and by applying the same revenue limits for both sides of the split roll, SB 1 permits the tax rate for owner-occupied homes to drop below that for other property.

Since, under SB 1's local revenue limit, the tax rate drops as the assessment increases, owner-occupied homes, which experience the most rapid assessment rises, will have their tax rates drop below that for business or industrial property. All property is under the same revenue limit and all will experience tax rate drops as assessments sharply increase.

As an example, if all owner-occupied homes in a county rose in value an average of 20%, as happened in 1977, and all business and industrial property rose by 12%, then for fiscal 78-79, homes would have their local agency property tax rates dropped by at least 13-3/4 % and business and industry would experience a property tax rate drop of at least 5-3/4%.

THE NEED FOR IMMEDIATE PROPERTY TAX RELIEF

The problem: Homeowners have had their property tax bills vastly increased in recent years so even with future property tax revenue limits they need tax relief now.

SB 1 provides at least a 30% cut in homeowner property taxes beginning in 1978-79 and continuing each year thereafter to any homeowner who owns and occupies his own home, condominium, duplex, or who owns a mobilehome and the property on which it is located. This property tax reduction is in addition to the present homeowners' exemption.

This 30% cut is accomplished by: 1) the state buy-out of the total present and future homeowner property tax contributions to the major county health and welfare costs: SSI/SSP, Medi-Cal, and AFDC, and 2) the state requirement that all local agencies cut property tax rates so that the total tax rate for homeowners is reduced by 30%

of their property tax bill. The tax rate cut made by counties, cities, special districts and school districts is fully reimbursed by the state from its ongoing surplus revenue.

IMPACT OF PROPERTY TAXES ON RENTERS

The problem: Renters have experienced increases in their monthly rents due to increased property taxes on the property they rent.

SB 1 doubles the existing income tax credit for all renters in the state, from $37 to $75, and extends the credit to public assistance recipients for the first time.

The renter's credit in SB 1 is 30% of the amount it is estimated renters pay in property taxes through their rent. Prop. 8/ SB 1 raises this renter's property tax equivalent from the present annual level of $220 to $250. This renter credit is available to mobilehome owners who rent space in a mobilehome park.

IMPACT OF PROPERTY TAXES ON SENIOR CITIZENS

The problem: Senior citizen homeowners and renters, many of whom are on fixed incomes, have been more severely hurt by increasing property taxes than most others.

SB 1 targets special, additional relief to lower income senior citizen homeowners and renters, by adding extra benefits to the present Senior Citizen's Property Tax Assistance Program, and by opening the program to new recipients.

For the first time, senior citizen renters and homeowners will compute their property tax relief under the same assistance schedules and income limits. Homeowners age 62 or older with incomes of $13,000 or less will be eligible for property tax relief which is in addition to the 30% property tax reduction all homeowners receive under Prop. 8/ SB 1. These seniors will receive property tax reductions ranging from 10% to 96% of their property taxes remaining after the 30% reduction.

Renters age 62 or older with incomes of $13,000 or less will be eligible for additional renter relief ranging from 10% to 96% of the statutory renter's property tax equivalent of $250. This renter relief is in addition to the $75 all renters receive.

Prop. 8/ SB 1 expands the Senior Citizen's Property Tax Assistance program to make the surviving spouse of an individual who had qualified for the program as either a homeowner or a renter eligible for the same assistance as the deceased spouse, regardless of the surviving spouse's age.

STATE REVENUE LIMIT

The problem: The state collects "excess taxes" resulting in the state's very large General Fund surplus. Although Prop. 8/ SB 1 establishes an ongoing program to return the surplus revenue through property tax relief, in the event that state revenues continue to exceed state expenditures, what can prevent this type of a surplus from occurring again?

SB 1 imposes revenue limitations on the state in the following manner: if the increase in tax revenues collected by the state over the previous year's tax revenues is a percentage increase greater than the percentage increase in the growth in personal income for the state multiplied by 1.2, then this excess percentage of revenue will go into a special Excess Revenue Fund. Rather than being spent through the normal budget process, such excess funds are designated for future taxpayer relief and other limited uses.

Since 1970 state tax revenues have exceeded this proposed limit 4 times. In the likely event that the state once again exceeds the limit, SB 1 provides a procedure for the return of these excess funds to the taxpayer. SB 1 provides $1.4 billion of property tax relief without an increase in state taxes, and without significant local revenue losses which will drastically impair the quality and extent of present local public services.

The following provides answers to several of the more common questions on Prop. 8 and SB 1:

Are any existing taxes increased by Prop. 8/ SB 1 or any new taxes levied?

No, and no new authority to raise taxes in the future is contained in Prop. 8/ SB 1 (The current DMV fees or any other fees or taxes paid by mobilehome owners are not increased by any provision of Prop. 8/ SB 1).

How long will the provisions of Prop. 8/ SB 1 remain effective?

The levels of homeowner and renter relief in Prop. 8/ SB 1 are not tied to any projected funding levels or surplus and will remain in effect unless repealed through legislation by the Legislature. The state and local revenue limits shall also remain in effect unless the Legislature acts to repeal them. There are no time limits attached to any provisions of Prop. 8/ SB 1.

The homeowner/renter relief costs of Prop. 8/ SB 1 can be fully funded from the surplus revenue collected by the state for at least 5 years. The 5-year projection is used as a matter of principle because longer projections of state revenue become exceedingly difficult to make. It is anticipated that future state expenditures can be held down sufficiently to permit the funding of the tax relief in Prop. 8/ SB 1 indefinitely into the future by the state revenues generated from present state tax levels.

Is the 30% reduction in property taxes a one-time reduction?

No, the 30% reduction applies to each individual's property tax bill every year. If increases in property taxes occur, the 30% reduction applies to the full value of the increased tax bill. It should be noted that the California Legislature has never acted to repeal any homeowner's property tax exemption and the expectation is that this property exemption will similarily never be repealed.

When does SB 1 take effect?

SB 1 will go into effect only if Proposition 8 is passed by the voters at Proposition 13 is defeated at the June 6th general election. If Prop. 8/ SB 1 is approved by the voters it takes effect on July 1, 1978.

What exactly is Proposition 8?

Proposition 8 authorizes a differential property tax rate for owner-occupied homes and for all other property. It is necessary to permit the local revenue limits called for in SB 1.

The full and exact text of Prop. 8 is: "Sec. 9.5. The Legislature may provide for the taxation of owner-occupied dwellings, as defined by the Legislature, or any fraction of the value thereof, at a rate lower than that levied on other property. In no event may the tax rate levied on other property be increased as a result of lowering the tax rate levied on owner-occupied dwellings. (emphasis added)

****

TABLE SUMMARIES OF SB 1 TAX RELIEF AND FISCAL EFFECTS

The following tables provide examples of tax relief under SB 1 for homeowners under age 62 (Table I), for homeowners aged 62 and older Table II), and for renters (Table III).
A summary of the fiscal effects of SB 1 on the state is shown in Table IV, and on local government in Table V.

TABLE I

EXAMPLES OF TOTAL STATE HOMEOWNER PROPERTY TAX RELIEF UNDER SB 1 COMPARED TO PRESENT LAW FOR HOMEOWNERS OF ALL INCOMES UNDER AGE 62

Home Fair Market	Current Tax Bill(a)	SB 1 Tax Bill	SB 1 Tax Relief Savings (b)
$ 30,000	$ 617	$ 423	$ 194
40,000	885	606	279
50,000	1,153	790	363
60,000	1,422	974	448
80,000	1,958	1,341	617
100,000	2,495	1,709	786

(a) After reducing assessed value of the home by the current $1,750 Homeowners' Exemption (HOE)

(b) Revenue limit rate reductions and 30% tax rate reduction (including "welfare buy-out." Homeowners in areas with higher than average tax bills will receive greater relief.

Assumptions: 1978-79 estimates of a $10.73 tax rate (per $100 assessed value) under current law, and a $7.35 tax rate under SB 1.

TABLE II

ADDITIONAL PROPERTY TAX RELIEF UNDER SB 1

FOR

HOMEOWNERS AGED 62 OR OLDER

OWNING A $50,000 HOME

Household Income	Current Net Taxes Paid	SB 1 Net Taxes Paid	Savings Under SB 1
$ 3,000 (and below)	$ 46	$ 32	$ 14$
6,000	496	189	307
9,000	1,015	520	495
12,000	1,015	670	437
13,001 (and above)	1,015	788	365

Household Income	Current Tax Bill (a)	*Current SCPTA Relief	SB 1 Tax Bill (b)	SCPTA SB 1 Relief
$ 3,000 (and below)	$ 1,153	$ 1,107	$ 788	$ 756
6,000	1,153	657	788	599
9,000	1,153	138	788	268
12,000	1,153	46	788	118
13,001 (and above)	1,153	0	788	0

(a) taxes based on a $10.73 average statewide tax rate; after HOE

(b) after HOE, revenue limit and 30% rate reductions

* SCPTA (Senior Citizens Property Tax Assistance)

TABLE III

EXAMPLES OF TOTAL STATE RENTER RELIEF UNDER SB 1
COMPARED TO PRESENT LAW

(a)

- - - - - - - RENTERS UNDER 62 - - - - - - -

Household Income	PRESENT LAW: All Renters (not available to welfare recipients)	SB 1: All Renters
all incomes	$ 37	$ 75

- - - - - RENTERS 62 AND OLDER - - - - - - -

Household Income	PRESENT LAW: All Renters (not available to welfare recipients with incomes over $5,000	SB 1: All Renters (c)
$2,000	$215	$315
$4,000	83	315
$6,000	37	265
$8,000	37	190
$10,000	37	135
$13,000	37	100
$15,000 and above	37	75

(a) renters' credit only

(b) renters' present $37 credit plus present SCPTA relief only

(c) renters' $75 credit plus SB 1 proposed SCPTA relief

TABLE IV

SUMMARY OF

STATE FISCAL EFFECT

(In millions)

	1978-79	1979-80	1980-81	1981-82
30% Homeowners' Relief (including buy-out)	$1,205	$1,352	$1,486	$1,628
Renters' Credit	165	170	175	180
Senior Citizens' Property Tax Assistance: Homeowners	35	36	37	38
Senior Citizens' Property Tax Assistance: Renters	60	59	57	56
State Assumption of Medi-Cal, SSI/SSP cost increase in excess of local revenue limits	14	25	34	44
State Administration and Local Mandated Cost Reimbursement	Unknown	-	-	-
Interaction (a)	-62	-161	-199	-232
Net State Effect	$1,417	$1,481	$1,584	$1,714

Source: Department of Finance data

(a) eg., the local revenue limit under SB 1 over time lowers the costs of existing property tax relief programs

TABLE V

LOCAL FISCAL EFFECT

	1978-79	1979-80	1980-81	1981-82
		(In millions)		
Property Tax Levies (a)	$-1,309	$-1,612	$-1,934	$-2,311
State Reimbursement: County "Welfare Buy-out"	397	439	481	523
State Reimbursement: Remainder of 30% Rate Reductions	808	913	1,005	1,105
State Assumption of Medi-Cal, SSI/SSP Cost increases in excess of local revenue limit	14	25	34	44
Local Mandated Cost/ State Reimbursement	Unknown	-	-	-
Net Local Effect (b)	$ - 90	$ -235	$ -414	$ -639

(a) Reflects combined effect of local revenue limit, buyout of homeowners' share of county health and welfare costs, and remainder of 30% homeowners' rate reduction; includes reduction of homeowners' exemption subventions due to effect of lower tax rates

(b) "Net Local Effect" is equal to the reduction in revenue due to property tax revenue limits, less the amount of state "hold harmless" payments on county Medi-Cal and SSI/SSP contributions. The state reimburses all other local costs and revenue losses.

Source: Department of Finance data

CHIEF ADM. OFFICER
APR 14 12 00 PM '78

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SAN DIEGO CITY SCHOOLS
Office of the Superintendent

March 7, 1978

ALTERNATIVE PLANS IN THE EVENT OF PASSAGE OF PROPOSITION 13 (JARVIS-GANN INITIATIVE), INCLUDING POSSIBLE REDUCTIONS OF STAFF DUE TO REDUCTIONS OF PROPERTY TAX AND OTHER REVENUES

BACKGROUND

On January 31, 1978, a report was submitted to the Board of Education which summarized the provisions of Proposition 13 on the June 6 ballot (Jarvis-Gann Initiative) and gave some preliminary indications of the potential impact of this proposition. The following is a summary of the most significant provisions of Proposition 13:

1. The property tax revenues would be limited to one percent of the full cash value of real property. The basis for full cash value will be the county assessor's appraised value as of March 1, 1975. The cash value of real property can not increase more than two percent a year--an inflation allowance. However, if real property is sold, the new full cash value is established at its sale price.

   The result of this reevaluation of property is that homeowners in identical market value houses could pay substantially different property taxes for the same government services simply because one house had not been sold and the other one had.

2. The County Board of Supervisors would levy the necessary tax to derive one percent of real property value and would apportion the revenues "according to law" to all taxing agencies within the county. There is no such implementing law. If we use the current tax rate as a means of apportioning the one percent tax, this school district might be eligible to receive 53 percent of the total tax collected.

3. The one percent limit on real property taxation would not apply to the district's Bond Interest and Redemption tax rate of 14.8 cents.

4. The State Legislature would be prohibited from enacting any new real property taxes and may increase other taxes only by an affirmative vote of two-thirds of both houses.

5. Cities, counties, and special districts (including school districts) could not increase property tax rates and could impose special taxes only with an affirmative vote of two-thirds of the "qualified electors."

ANALYSIS OF IMPACT OF PROPOSITION 13 ON DISTRICT INCOME

Because of the many uncertainties and unknowns of the impact of Proposition 13, it was necessary to make certain assumptions on which to project

the potential loss of property tax revenues. Following are the assumptions the district has made in order to arrive at an estimate:

1. The County Board of Supervisors will distribute tax collections to the various agencies on the basis of current proportions. The Initiative states, "The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties." Currently, there is no such law.

2. The revenue loss to the district will be approximately $70.7 million. The county chief administrative officer has advised that the district could expect to lose 60 percent of its secured tax collections for all funds except Bond Interest and Redemption. Using 1977-78 as a base, this amounts to $70.7 million. The County Department of Education used a different method of estimating and developed an estimate of $71.3 million, and the State Department of Education's estimate is $73.1 million. For planning purposes, we have decided to use the $70.7 million. This reduction would require the district's budgets which utilize property taxes as a source of revenue to be reduced from $224.5 million to $153.8 million. This is a reduction of 31 percent.

3. For 1978-79, there will be no loss in unsecured tax revenues. In future years this income will decrease.

4. State subventions will continue with no loss.

5. All categorical funds from state and federal sources will continue except Comprehensive Employment and Training Act and Miller-Unruh funds.

ALTERNATIVES TO MEET THE IMPACT OF PROPOSITION 13

If Proposition 13 is approved by the voters on June 6, the Finance Department estimates that the district's general funding income would be reduced $70.7 million. This reduction would require all the various district budgets which utilize secured property taxes, except the Bond Interest and Redemption Fund which is exempted from the tax limitations by Proposition 13, to be reduced from $224.5 million to $153.8 million.

There are two major alternatives available for consideration in planning ways to offset the impact of a possible $70.7 million loss in property tax revenues. The first alternative would be for the board to take no action at this time with regard to reductions in staff or budget cuts. The second alternative is to develop a budget based on the assumption that the reduction in property tax revenues would occur and there would be no offsetting income.

This could be accomplished in several ways: By reducing programs and services, including the termination of personnel and the reduction in nonpersonnel expenditures; by reducing salaries and fringe benefits of all personnel; by closing schools; or by combining various alternatives, such as a reduction in programs and services with a salary and fringe benefits reduction. An analysis of the effects and impact of these various alternatives follows.

1. Take No Action At The Time.

This could be done by developing a budget for 1978-79 based on current law and the assumption that Proposition 13 will not pass on June 6, or that if it passed, the legislature would provide additional state income to offset all or part of the loss of local property tax revenues.

Such approach raises some serious questions as to what would happen if Proposition 13 did pass and the legislature failed to make up the loss in property tax revenues or only partially made up the loss. If this were to occur, the board would find itself in a position where it would have, in effect, contracted with all certificated employees for their services for the 1978-79 school year, with no guarantee of funding to pay for those services. Reductions could not be made in classified positions and nonsalary accounts within the budget sufficient to offset the loss that would occur under these circumstances. This would mean the district would have to continue operating during the 1978-79 school year until such time as available funds were exhausted. Current state law requires that school districts operate their schools for 175 school days. If schools do not operate for that minimum number of days, the district loses state apportionment funds. The State Superintendent of Public Instruction has indicated he would not grant a waiver of this requirement if school districts fail to operate for 175 school days. This alternative also raises serious legal questions regarding the responsibilities of members of the Board of Education to prudently manage the district.

The most serious limitation of this approach is that the Board of Education would not be in a position to terminate any certificated employees if forced to adopt a substantially reduced budget. The board must adopt a balanced budget by August 10 which would not be possible under these circumstances. It is obvious that this approach has merit only if the assumption is made that Proposition 13 will be defeated or the legislature will make up any resulting deficit if it passes.

2. Reductions in Programs or Services.

In anticipation that Proposition 13 might be approved, and the district's income was reduced by $70.7 million, the following steps would have to be taken to achieve a balanced budget for 1978-79:

a. A determination be made as to the distribution of the reductions among the programs and services of the district, including personnel and nonsalaried expenditures in the budget.

b. Notices would have to be given by March 15 to those certificated employees, both administrators and teachers, affected by reductions in programs and services. Present law requires termination notices to identify the programs or services to

be reduced or discontinued and that employees be identified on the basis of seniority in the particular program or service for which they are credentialed.

c. The law requires that classified employees be given only a 30-day notice. Therefore, final action does not have to be taken by March 15 as to the notification of classified personnel. However, in order to develop a comprehensive plan it is necessary to identify programs and services to be reduced and those classified personnel to be affected by the reductions.

3. Reduction in Salaries and Fringe Benefits.

In order to offset a $70.7 million deficit, it would be necessary to reduce the salary and fringe benefits of all certificated and classified personnel by 40 percent.

4. Reduction in Programs and Services Combined with a Reduction in Salaries and Fringe Benefits.

Under this alternative, it would still be necessary to provide notices of termination to some certificated employees by March 15 and to some classified employees at a later date. The numbers of employees affected would depend on the severity of salary and fringe benefit reductions.

These various alternatives have been developed to provide the Board of Education with a range of options for its consideration. At this time, no precise plan has been developed to implement any of these alternatives. If it becomes necessary to develop a specific emergency plan to operate the school district, such development will require the involvement of all members of the management team and the school community.

IMPACT OF THE REDUCTION OF PROGRAMS AND SERVICES TO OFFSET THE REDUCTION IN PROPERTY TAX REVENUES PROPOSED BY PROPOSITION 13

In order to reduce the district's operating budget by $70.7 million, drastic reductions would have to be made. The first steps taken in developing a list of possible reductions were:

1. All functions not mandated by law were considered for reduction or elimination.

2. Programs and services not directly related to the classroom instructional program were given the lowest priority.

3. Programs financed by special purpose taxes were considered for reduction or elimination, including the following:

a. Programs funded from the community services tax, including noon-duty supervision, civic center activities, community schools, and recreational activities and facilities.

b. Children's Centers.

c. Free meals for needy pupils.

d. Regional occupational programs.

e. Adult education.

f. Proposition YY projects.

g. Proposition XX--continued only at the level required to make annual lease payments to the Public School Building Corporation.

The reductions or eliminations summarized in 1, 2, and 3, above, still would leave approximately $57 million which would have to be cut from the district's general operating budget. Following is a brief listing of some of the most significant reductions which would be required:

1. Reductions would be made in district administrative offices, such as,

   - Elimination of clerical service to the Board of Education.
   - Elimination of the deputy superintendent for administration and two clerical positions.
   - Elimination of the public information office.
   - Elimination of the systems and procedures office.
   - Elimination of the administrative services office.
   - Reduction in the legal office to one attorney and a secretary.
   - Reduction of clerical staff to one for the superintendent and deputy superintendent for operations.
   - Similar reductions to one administrative position and a secretary would be made in each of the operating division offices.

2. The Programs Division would be reduced to ten positions to provide minimal support for districtwide basic education programs, selection of media materials and consolidation of state textbook orders. Special Projects office would remain in order to continue federal and state funded projects.

3. Reductions in Student Services Division would eliminate professional counseling, all health services except for minimal hearing and vision screening and physical examination required by law. Special Education programs would continue under one administrative position for general program direction and liaison with state and federal authorities. Enrollment in Special Education

classes would be increased to the maximum allowed by the California Master Plan. The Gifted Program would be eliminated.

4. Reductions in the Business Division departments would total 282 classified positions and $5.3 million. This would mean a significant reduction in custodial service and gardening service. The maintenance program would be operated at an emergency repair level only. Other business support services, such as duplicating, mail service, and security services, would be reduced to a minimum or eliminated.

5. Similar reductions would be made in other support divisions and departments, such as the Personnel Division, where 45 positions and almost $1 million would be reduced. Similar reductions would be made in Evaluation Services, Data Systems, Planning and Research and other support services.

6. The following elementary programs would be eliminated: District funded bilingual education; instrumental music; reinforcement reading program; summer school; district funded compensatory education; outdoor education program; the Balboa Park program; discretionary funds, and capital outlay. In addition, class sizes would be increased in all grades, K-6, and some elementary schools would have to be closed.

7. The following programs would be eliminated in the Secondary Division: Driver training; summer school; community recreational services; and Jr. R.O.T.C. The following programs would be reduced or eliminated: English-as-a-Second Language; district-funded bilingual programs; regional occupation programs; vocational education; interscholastic athletics; career counseling; field trips; and all instructional aide and teacher aide positions above formula application. All schools would be reduced to a four-period minimum day for each student with schools operating two four-period days. Certificated staff would teach six periods a day. A substantial number of secondary schools would have to be closed. Other reductions would include:

   - Assign one principal per school site supervising both sessions.
   - Assign only one vice principal per site working both sessions.
   - Eliminate all nonclassroom personnel.
   - Eliminate all counseling positions.
   - Eliminate all textbook funds.
   - Reduce instructional supplies by 30 percent.
   - Eliminate all capital outlay.
   - Eliminate all librarian positions.
   - Maintain current level of clerical position allocation to each site, but reduce total clerical positions as a result of closing some schools.

8. All CETA positions must be terminated under federal regulations if regular employees in the same classifications are laid off.

9. Since integration is the district's first priority, certificated teachers selected, trained, and assigned to integration programs because of their unique qualifications, will be retained.

School districts are labor intensive organizations. The reductions in programs and services outlined above will have the greatest impact on personnel. In order to offset the $70.7 million reduction that would be necessary if Proposition 13 is approved, the reductions and elimination of programs and services described here, and identified in Exhibits A, B, and C would require the layoff of the following groups of personnel and the reduction in nonsalaried operations.

1. Personnel Reductions

   a. Certificated

      105 Certificated administrative positions
      (a 39% reduction)

      1021 Certificated classroom teaching positions
      (a 20% reduction)

      814 Certificated nonclassroom teaching positions
      (a 90% reduction)

      1940 Total certificated positions

   b. Classified

      1504 Classified positions
      (a 39% reduction)

2. Nonsalaried Reductions.

   A reduction of $18,536,000 in nonsalaried expenditures
   (35% reduction)

Although such reductions are destructive to the district's total educational program, these are the kinds of reductions which would be required to offset a $70.7 million loss in income which is estimated will result from passage of Proposition 13.

TLG:CTG
mt

Attachments
(Revised)

SAN DIEGO UNIFIED SCHOOL DISTRICT
Finance Department
March 3, 1978

GENERAL FUND - LESS SPECIAL PROJECTS AND CHILDRENS' CENTERS
POSSIBLE REDUCTIONS THAT WILL BE REQUIRED
IF PROPOSITION 13 (JARVIS) IS NOT DEFEATED

	Positions		Appropriations	
	1977-78 Final Budget	Reductions	1977-78 Final Budget	Reductions
Programs Funded From Categorical Income Sources				
Meals For Needy			532 094	532 094
Regional Occupation Program			269 477	269 477 1/
Adult Education	9.50	9.50	285 174	285 174 1/
Community Services	24.00	24.00	4 039 324	2 002 464 1/
Proposition YY	2.00	2.00	2 271 915	2 271 915 1/
Proposition XX	28.41	28.41	14 851 632	5 348 734 2/
Total Reductions To Programs Funded From Categorical Sources	63.91	63.91	22 249 616	10 709 858
General Fund - General Operations				
Summer School	1.50	1.50	3 581 939	3 581 939
Schools' Discretionary Fund			658 233	658 233
District Compensatory Education	130.25	130.25	2 061 279	2 061 279
District Support to Special Projects:				
C.E.T.A.			623 714	623 714
Miller Unruh			424 690	424 690
V.E.A. Workstudy			13 556	13 556
Teacher Corp.			7 457	7 457
General Programs	7 766.56	2 043.82	180 892 815	49 871 141
Total General Fund - General Operations	7 898.31	2 175.57	188 263 683	57 242 009
Total General Fund - Less Special Projects	7 962.22	2 239.48	210 513 299	67 951 867
Childrens' Centers	298.88	298.88	7 611 573	2 786 327
Total Reductions, General Fund - Less Special Projects & Childrens' Centers		2 538.36		70 738 194

GENERAL FUND - LESS SPECIAL PROJECTS AND CHILDRENS' CENTERS
POSSIBLE REDUCTIONS THAT WILL BE REQUIRED
IF PROPOSITION 13 (JARVIS) IS NOT DEFEATED

POSITIONS FUNDED FROM SPECIAL PROJECTS REQUIRING DISTRICT SUPPORT	REDUCTIONS
CETA	605.00
MILLER/UNRUH	41.00
OUTDOOR EDUCATION - COUNTY FUNDED	14.00
TOTAL SPECIAL PROJECTS	660.00
CERTIFICATED POSITIONS WITHOUT A CLASSROOM TEACHING CREDENTIAL	245.00
TOTAL DISTRICT	3 443.36

1/ Local Tax Source Only.
2/ Allows for Lease Payment Only.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Finance Department
March 6, 1978

EXHIBIT B

GENERAL FUND - GENERAL OPERATIONS
POSSIBLE REDUCTIONS THAT WILL BE REQUIRED
IF PROPOSITION 13 (JARVIS) IS NOT DEFEATED

	Positions		Appropriations		Percent Reduction of 1977-78	Percent of Total Reduction
	1977-78 Final Budget	Reductions	1977-78 Final Budget	Reductions		
INSTRUCTIONAL PROGRAMS						
GENERAL EDUCATION						
Elementary Grades K-6	2 201.75	290.30	45 900 265	7 500 893	16.34	13.10
Secondary Grades 7-12	2 294.93	427.94	51 648 753	11 440 579	22.15	19.99
Total General Education	4 496.68	718.24	97 549 018	18 941 472	19.42	33.09
SPECIAL EDUCATION						
Preformal	16.50		262 527			
Elementary Grades K-6	376.88	82.00	7 298 050	1 825 382	25.01	3.19
Secondary Grades 7-12	184.76	37.00	3 785 845	998 685	26.38	1.74
Total Special Education	578.14	119.00	11 346 422	2 824 067	24.89	4.93
TOTAL INSTRUCTIONAL PROGRAMS	5 074.82	837.24	108 895 440	21 765 539	19.99	38.02
SUPPORT SERVICES PROGRAMS						
INSTRUCTIONAL SUPPORT PROGRAMS						
Instructional Administration	144.06	103.22	4 727 141	2 904 802	61.45	5.07
Instructional Media	192.22	125.97	4 564 468	3 288 649	72.05	5.75
School Administration	733.47	292.30	15 404 608	6 969 890	45.25	12.18
TOTAL INSTRUCTIONAL SUPPORT PROGRAMS	1 069.75	521.49	24 696 217	13 163 341	53.30	23.00

GENERAL FUND - GENERAL OPERATIONS
POSSIBLE REDUCTIONS THAT WILL BE REQUIRED
IF PROPOSITION 13 (JARVIS) IS NOT DEFEATED

	Positions		Appropriations		Percent	Percent
	1977-78 Final Budget	Reductions	1977-78 Final Budget	Reductions	Reduction of 1977-78	of Total Reduction
SUPPORT SERVICES PROGRAMS						
PUPIL SERVICES SUPPORT PROGRAMS						
Attendance	45.89	18.89	519 385	208 032	40.05	.36
Counseling	406.34	365.59	8 939 161	7 743 537	86.62	13.53
Health Services	102.77	69.27	2 079 000	1 431 261	68.64	2.50
TOTAL PUPIL SERVICES SUPPORT PROGRAMS	555.00	453.75	11 537 546	9 382 830	81.32	16.39
GENERAL SUPPORT PROGRAMS						
District Administration	241.39	112.34	6 800 572	2 660 782	39.13	4.65
Maintenance of Plant	142.00	56.00	6 641 594	3 329 243	50.13	5.82
Operation of Plant	773.25	186.75	16 892 981	3 324 591	19.68	5.81
Transportation	15.60		2 668 605	161 661	6.06	.28
Other General Support	26.50	8.00	415 329	120 330	28.97	.21
TOTAL GENERAL SUPPORT PROGRAMS	1 198.74	363.09	33 419 081	9 596 607	28.72	16.77
AUXILIARY PROGRAMS						
Community Services			24 662			
Facilities Acq. Constr./Equipment			2 575 108	1 593 551	61.88	2.78
TOTAL AUXILIARY PROGRAMS			2 599 770	1 593 551	61.30	2.78
TOTAL SUPPORT SERVICES PROGRAMS	2 823.49	1 338.33	72 252 614	33 736 329	46.69	58.94
OTHER OUTGO			75 000			
RESERVES			6 436 504	1 740 141	27.04	3.04
ENDING BALANCE			604 125			
TOTAL GENERAL FUND - GENERAL OPERATIONS	7 898.31	2 175.57	188 263 683	57 242 009	30.41	100.00

HEH:mc

SAN DIEGO UNIFIED SCHOOL DISTRICT
Finance Department
March 7, 1978

EXHIBIT C

GENERAL FUND LESS SPECIAL PROJECTS AND CHILDREN'S CENTERS
POSITION REDUCTIONS REQUIRED IF PROPOSITION 13 (JARVIS) PASSES

PROGRAM DESCRIPTION	REDUCED	DISCONTINUED	REDUCTIONS CERTIFICATED	REDUCTIONS CLASSIFIED	REDUCTIONS TOTAL
INSTRUCTIONAL PROGRAMS					
GENERAL EDUCATION					
Elementary Grades K-6			249.69	40.61	290.30
School Staff Allocations	X				
Instrumental Music		X			
Reinforcement Reading		X			
Bilingual Education		X			
Balboa Park Program		X			
Outdoor Education		X			
Social Health		X			
Drug and Narcotic Education		X			
Secondary Grades 7-12			366.34	61.60	427.94
English	X				
Social Sciences	X				
Foreign Language	X				
Physical Education	X				
Science	X				
Mathematics	X				
Fine Arts	X				
Applied Arts	X				
Bilingual Education		X			
Social Health		X			
Drug and Narcotic Education		X			
Driver Training		X			
Military Science		X			

GENERAL FUND LESS SPECIAL PROJECTS AND CHILDREN'S CENTERS
POSITION REDUCTIONS REQUIRED IF PROPOSITION 13 (JARVIS) PASSES

PROGRAM DESCRIPTION	REDUCED	DISCONTINUED	REDUCTIONS CERTIFICATED	REDUCTIONS CLASSIFIED	REDUCTIONS TOTAL
INSTRUCTIONAL PROGRAMS (continued)					
SPECIAL EDUCATION					
Elementary Grades K-6			61.00	21.00	82.00
Mentally Gifted		X			
Mentally Retarded Trainable	X				
Mentally Retarded Educable	X				
Physically Handicapped					
Aphasic	X				
Orthopedic	X				
Visual	X				
Speech and Hearing	X				
Hearing	X				
Deaf/Blind	X				
Homebound	X				
Regular Day	X				
Autistic	X				
Multiple Handicapped	X				
Educationally Handicapped					
Educationally Hndcpd. (SDC)	X				
Licensed Institutions	X				
Learning Disability Group	X				
Secondary Grades 7-12			37.00		37.00
Mentally Gifted		X			
Mentally Retarded Educable	X				
Physically Handicapped					
Aphasic	X				
Orthopedic	X				
Hearing	X				
Speech and Hearing	X				
Pregnant Minor	X				
Regular Day	X				
Visual	X				
Homebound	X				

GENERAL FUND LESS SPECIAL PROJECTS AND CHILDREN'S CENTERS
POSITION REDUCTIONS REQUIRED IF PROPOSITION 13 (JARVIS) PASSES

PROGRAM DESCRIPTION	REDUCED	DISCONTINUED	REDUCTIONS CERTIFICATED	REDUCTIONS CLASSIFIED	REDUCTIONS TOTAL
SUPPORT SERVICES PROGRAMS					
INSTRUCTIONAL SUPPORT					
Instructional Administration			61.44	41.78	103.22
Central Direction & Supervision	X				
Evaluation of Instruction	X				
Instructional Media			41.27	84.70	125.97
Audio Visual	X				
Library	X				
Instruct. Duplicating Svcs.	X				
Educational Television		X			
Computer Assistance	X				
School Administration			167.72	124.58	292.30
Site Direction & Supervision	X				
PUPIL SERVICES SUPPORT PROGRAMS					
Attendance	X			18.89	18.89
Counseling	X		288.65	76.94	365.59
Health Services	X		60.27	9.00	69.27
GENERAL SUPPORT PROGRAMS					
District Administration					
Elementary Division Administration		X	1.00	1.00	2.00
Secondary Division Administration		X	1.00	1.00	2.00
Employee Relations		X		2.00	2.00
Personnel Division Administration	X			2.00	2.00
Employee Services		X		5.00	5.00
Personnel Admin. Department	X		3.00	15.00	18.00
Wage and Salary Department	X			18.00	18.00

GENERAL FUND LESS SPECIAL PROJECTS AND CHILDREN'S CENTERS
POSITION REDUCTIONS REQUIRED IF PROPOSITION 13 (JARVIS) PASSES

PROGRAM DESCRIPTION	REDUCED	DISCONTINUED	REDUCTIONS CERTIFICATED	REDUCTIONS CLASSIFIED	REDUCTIONS TOTAL
GENERAL SUPPORT PROGRAMS (continued)					
District Administration (cont'd.)					
Board of Education	X			3.00	3.00
Superintendent's Office	X			1.00	1.00
Deputy Superintendent/Admin.		X	1.00	3.00	4.00
Deputy Superintendent/Operations	X			1.50	1.50
Administrative Services	X			2.00	2.00
Legal Services	X			4.00	4.00
Planning and Research		X		6.00	6.00
Systems and Procedures		X		2.50	2.50
Budgets and Cost Controls	X			4.00	4.00
Accounting	X			3.00	3.00
Data Systems	X			7.00	7.00
Public Information		X		5.00	5.00
Land & Facilities Planning	X			4.84	4.84
Business Services Division Admin.	X			1.00	1.00
Purchasing	X			9.00	9.00
Materiel Control	X			2.25	2.25
Duplicating Services	X			1.50	1.50
Safety/Energy Conservation		X		1.75	1.75
Total District Administration			6.00	106.34	112.34
Maintenance of Plant	X			56.00	56.00
Operation of Plant	X			186.75	186.75
Other General Support	X			8.00	8.00
TOTAL GENERAL FUND - GENERAL OPERATIONS			1 339.38	836.19	2 175.57

'ERAL FUND LESS SPECIAL PROJECTS AND CHILDREN'S C ERS
POSITION REDUCTIONS REQUIRED IF PROPOSITION 13 (JARVIS) PASSES

PROGRAM DESCRIPTION	REDUCED	DISCONTINUED	REDUCTIONS CERTIFICATED	REDUCTIONS CLASSIFIED	REDUCTIONS TOTAL
PROGRAMS FUNDED FROM CATEGORICAL INCOME SOURCES					
Meals For Needy		X			
Regional Occupation Program		X			
Adult Education		X	5.50	4.00	9.50
Community Services		X		24.00	24.00
Proposition YY		X		2.00	2.00
Proposition XX	X			28.41	28.41
Total Funded From Categorical Income Sources			5.50	58.41	63.91
CHILDRENS' CENTERS		X	202.10	96.78	298.88
Total General Fund - Less Special Projects & Childrens' Centers			1 546.98	991.38	2 538.36
POSITIONS FUNDED FROM SPECIAL PROJECTS REQUIRING DISTRICT SUPPORT					
C.E.T.A.			93.00	512.00	605.00
Miller Unruh/Reading			41.00		41.00
Outdoor Education- County Funded Positions			-14.00		14.00
Total Special Projects			148.00	512.00	660.00
CERTIFICATED POSITIONS WITHOUT A CLASSROOM TEACHING CREDENTIAL			245 00		245.00
Total District			1 939.98	1 503.38	3 443.36

HEH:mc

Section C

Correspondence Received by Blue Ribbon Commission

April 4, 1978

- City of La Mesa Parking District No. 1
- Poway Unified School District
- Poway Municipal Water District

April 5, 1978

- Carlsbad Unified School District
- Escondido Union High School District
- Escondido Union School District
- Montgomery Fire Protection District
- Sweetwater Union High School District

April 6, 1978

- Coachella Valley County Water District
- City of Coronado
- Sweetwater Community College District

April 10, 1978

- Councilman Tom Gade, City of San Diego
- Spring Valley Fire Protection District

April 11, 1978

- Grossmont Union High School District
- Lower Sweetwater Fire Protection District
- San Marcos Cemetary District

April 12, 1978

- Community Development Commission of the City of National City
- La Mesa Redevelopment Agency
- Mira Costa College
- Oceanside Redevelopment Agency
- Santee School District

April 13, 1978

- Coronado Unified School District
- Julian Union High School
- Lake Cuyamaca Recreation and Park District
- City of Oceanside

April 18, 1978

- San Dieguito Union High School District

April 19, 1978

- Centre City Development Corporation

April 21, 1978

- Vista Sanitation District

CITY OF LA MESA

April 4, 1978

Lucille V. Moore, Chairwoman
Board of Supervisors
County of San Diego
1600 Pacific Highway
San Diego, Calif. 92101

Dear Ms. Moore:

The effect of the passage of the Jarvis-Gann initiative on Parking District No. 1 in La Mesa would be to cause the District to default on its outstanding bonded debt obligations immediately. The only property tax levy made by this District is for the retirement of bonded debt, and the parking revenue received from the meters is barely sufficient to pay the salary of the single District employee and the District's operating expenses.

I hope this information will assist you in the evaluation of the effects of the passage of the Jarvis-Gann initiative.

Yours truly,

Ronald E. Bradley

Ronald E. Bradley
Director of Finance

reb/bjs

BOARD OF EDUCATION
CHARLES J. DOLLEN
JOHN G. ORSI
ROGER M. KEITHLY, JR.
ELTON NIXON
JAMES R. E. NORMAN

POWAY UNIFIED
SCHOOL DISTRICT

13626 TWIN PEAKS ROAD · POWAY, CALIFORNIA 92064

(714) 748-0010 – 278-5880

DR. ROBERT L. REEVES
SUPERINTENDENT OF SCHOOLS

OFFICE OF THE SUPERINTENDENT

April 4, 1978

Blue Ribbon Commission
c/o Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, CA 92101

Dear Sirs:

The Poway Unified School District would like to take this opportunity to respond to your request for information relative to the Jarvis-Gann Initiative measure (Proposition 13). We have taken a position that our Board of Education will support a yes vote on Proposition 8 and a no vote on Proposition 13. The reason this vote was taken was because of the concern for the disruptive nature of the Proposition 13 initiative implementation phase. The Board of Education has also indicated that the total and sole responsibility for funding the local schools, and those who have the power to cause funding to take place, is the State Legislature. And, it is their responsibility to see that the schools are funded at a level where the best education program can take place. Therefore, the Board has directed the administration to conduct business as usual and let the State Legislature take their just responsibility for funding schools by whatever measures seem necessary and appropriate.

This district is dealing only with matters of fact and is taking no other aggressive action by which it intends to influence a vote on this issue. The belief is that the people, once presented with the facts, will make the best decision for the citizens of the State of California.

On a more personal assessment, those of us who have studied school finance over the years do find some very limiting and concerning factors in the Jarvis Initiative. For those of us who would believe that local control of government is in the best interest of the citizens of the State of California, we find a shift of the funding and decision-making function from the local to the state level very disturbing. We are always concerned about "big brother" tying more and more strings on the lower level governmental agencies as more money comes from the top. We need only to cite any number of federal aided programs that have continually strapped us after a very innocuous beginning.

The impact on the Poway Unified School District, based on the County Department of Education's figure, would result in approximately a $6.5 million loss in revenues

that would considerably disrupt the operation of a unified school district if no other funding were to replace it. The Board of Education will abide by the law up to a point where it can no longer operate the schools. At that point in time, hopefully some relief will be forthcoming, or extreme measures may have to be implemented, including closing down the schools until funding becomes available to reopen them.

We do hope that whatever the decision that the voters of California make, the responsible body--the State Legislature, will act as they have, in a responsible manner, to partly offset the concern through the Senate Bill #1--Proposition 8 alternative by enacting funding legislation in an expeditious manner. We would hope that the problem will be properly focused into their court as opposed to other alternative methods that other local agencies might have access to that school districts don't.

I hope this has been descriptive of our district's position. If you have any further questions, I'd be happy to respond to them.

Sincerely,

Robert L. Reeves
Superintendent

/fib

LESTER J. BERGLUND
SUPT. - WATER DEPT.

WILLIAM B. BOND
CHIEF - FIRE DEPT

JAMES W. ROSSON
SUPT. - LAKE-PARK

DOROTHY M. McGUIRE
CONTROLLER

Poway Municipal Water District

COL. SANFORD B. HUNT
PRESIDENT -- DIV. 1
DR. ROBERT L. DOUGHERTY, JR.
VICE PRES -- DIV. 2
LINDA L. ORAVEC
SECRETARY -- DIV. 5
JAMES C. STANTON
TREASURER -- DIV. 4
WILLIAM A. COLE
ASST. SECRETARY -- DIV. 3

HARRY BARBER
GENERAL MANAGER
BOYLE ENGINEERING
CONSULTING ENGINEERS
GLENN, WRIGHT, JACOBS AND SCHELL
COUNSEL

April 4, 1978

D.K. Speer
Chief Administrative Office
Office of Management & Budget
1600 Pacific Highway - Room 296
San Diego, California 92101

Attention: John J. McTighe

Dear John:

Thank you for the opportunity to give input to the "Blue Ribbon Commission". We will have more for you later, but have enclosed the policy statement adopted by our Board. This is intentionally low key, and was designed to: 1) permit the Directors to give a uniform, moderate response to the press and their constituents; and to 2) attempt to keep volatile employees from making less moderate statements which would be self-serving, and probably create more votes for the initiative.

If you require any further information, please do not hesitate to call.

Very truly yours,

POWAY MUNICIPAL WATER DISTRICT

Dorothy M. McGuire

(Mrs.) Dorothy M. McGuire
Controller

DMM:ems

enclosure

WHAT IS PMWD POSITION ON TAX RELIEF?

THE DISTRICT ACKNOWLEDGES THAT POPULAR DEMAND FOR TAX RELIEF MUST BE MET.

WHAT WOULD BE THE EFFECT OF JARVIS ON PMWD OPERATION?

JARVIS AS A VEHICLE FOR TAX REFORM TAKES MAJOR DECISION MAKING POWER AWAY FROM POWAY AND PLACES THIS AUTHORITY WITH THE STATE LEGISLATURE. WE ARE UNABLE TO GIVE A GOOD, RESPONSIBLE ANSWER ON THE EFFECT IT WILL HAVE ON LEVEL OF SERVICES, UNTIL THE AMENDMENT IS INTERPRETED BY THE COURTS AND IMPLEMENTED BY THE STATE LEGISLATURE.

WHAT IS PMWD DOING ABOUT 1979 BUDGET?

THE POWAY BOARD AND MANAGEMENT ARE PREPARING ALTERNATIVE BUDGETS.

(A) WATER AND FIRE (PROPERTY RELATED) SERVICE:

THE DISTRICT WILL CONTINUE TO OPERATE AT MINIMUM COST OFFERING SERVICES TO THE EXTENT OF AVAILABLE REVENUE.

(B) PARK & RECREATION SERVICE:

THE DISTRICT WILL CONTINUE INCREASED EMPHASIS ON LAKE POWAY USER FEES TO MAINTAIN A PROGRAM THAT CONFORMS WITH OUR OBLIGATIONS UNDER STATE GRANT FUND CONTRACT (DAVIS-GRUNSKY).

ESCONDIDO UNION HIGH SCHOOL DISTRICT
OFFICE OF THE SUPERINTENDENT
240 SOUTH MAPLE STREET, ESCONDIDO, CA 92025
(714) 745-8080

BOARD OF TRUSTEES
WILLIAM J. ULMAN
PRESIDENT
CHARLOTTE S. HOTCHKISS
VICE-PRESIDENT
WILBUR F. BRADLEY, JR.
CLERK
ROBERT D. SIKES
MEMBER
STANLEY C. PETERS
MEMBER

April 5, 1978

Blue Ribbon Commission
Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, California 92101

Gentlemen:

The following comments are respectfully submitted to members of the Blue Ribbon Commission relative to the Jarvis-Gann Initiative:

1. It has been estimated by the Business Division of the San Diego County Department of Education that passage of the Initiative will result in the loss of income in the amount of $4,532,847 for the Escondido Union High School District. This is equivalent to a 42.4 per cent reduction of total income. If the district does not receive its share of taxes, the loss could total $7,178,087, or 67.2 per cent of income.

2. In 1977 voters of the EUHS District approved a five-year building program to complete San Pasqual High School. This project was to be completed on a pay-as-you-go basis by a voter approved $140 per pupil increase in the revenue limit. The funds could only be used for this purpose and we are presently completing the first phase of this building program. Passage of the Jarvis-Gann Initiative would mean that the additional $140 per ADA could no longer be assessed, even though local voters have given approval. In addition, should the Initiative pass, and should the State Legislature act to give financial assistance to school districts, they would not include the funds to replace our loss of the $140 per ADA for the next four years.

3. The provision requiring a two-thirds majority vote of the qualified electors to impose special taxes by local agencies presents an impossibility. Passage of the Initiative would mean the loss of financial means to complete a school as described in #2 above and there would be absolutely no possibility of passing a measure under the "qualified elector" provision.

Your consideration of these items is greatly appreciated.

Sincerely,

G. W. Quade
District Superintendent

GWQ:ci

ESCONDIDO UNION HIGH SCHOOL DISTRICT

OFFICE OF THE SUPERINTENDENT
240 SOUTH MAPLE STREET, ESCONDIDO, CA 92025
(714) 745-8080

BOARD OF TRUSTEES
WILLIAM J. ULMAN, PRESIDENT
CHARLOTTE S. HOTCHKISS, VICE-PRESIDENT
WILBUR F. BRADLEY, JR., CLERK
ROBERT D. SIKES, MEMBER
STANLEY C. PETERS, MEMBER

April 5, 1978

Blue Ribbon Commission
Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, California 92101

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Your consideration of these items is greatly appreciated.

Sincerely,

G. W. Quade
District Superintendent

GWQ:cj

ESCONDIDO UNION SCHOOL DISTRICT

Date: February 1, 1978

To: Dr. Don D. Hout, Superintendent

From: Harlan E. Werth, Assistant Superintendent, Business Services

Subject: Effect of Jarvis Amendment on Escondido Union School District

This is an estimate of the effect of the Jarvis Amendment on the Escondido Union School District using the current year's budget (1977-78) as an example:

A)	Base Revenue Limit 1977-78	$13,152,801
	Amount of State Aid	5,079,205
	Amount to be raised by local property taxes	8,073,596
	Plus: Override taxes authorized	147,859
	Total Amount to be raised by local property taxes	$ 8,221,455
B)	District Assessed Valuation - Base Year 1975 - $219,038,275	
C)	1% Limitation under Jarvis Amendment - $2,190,383	
D)	Distribution Factor - 57% of (C) =	1,248,518
	Uncollectible amount under "Jarvis"	$ 6,972,937

The effect on current year's revenue would be a reduction of 43% or $6,972,937. In order to balance the budget, Expenditures would have to be cut from $17,024,143 to $10,051,216. (This would eliminate the Board's reserve.) As a matter of interest as to the magnitude of the reduction the following facts are offered:

Certificated Payroll 1977-78	$ 8,970,143
Classified Payroll 1977-78	3,078,197
Employee Benefits 1977-78	1,639,977
Total Employee-related Expenditures	$13,688,317

It is estimated that $5 million would have to be cut from the personnel budget which would create educational and management problems of such proportions that policies and procedures in effect today would no longer apply.

HEW/eu

Montgomery Fire Protection District
R.V. Dawkins, Fire Chief

391 OXFORD STREET CHULA VISTA, CALIFORNIA 92011

BOARD OF DIRECTORS
Lynn Pankhurst, President
A. H. Bahrke, Vice-President
Mae LoCicero, Secretary

Emergency: 422-1101
Business: 422-1102

April 5, 1978

Blue Ribbon Commission
c/o Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, CA 92101

RE: PROPOSITION 13

Dear Sirs:

This is in reponse to the letter received from Lucille Moore, Chairwoman, Board of Supervisors, dated March 29, 1978.

The effects of Proposition 13 on this District are as follows:

This District is solely reliant upon property taxes. Proposition 13 would cause the District to lose 60% in property tax revenues resulting in the District having to reduce its employees and therefore its services.

The reduction of employees would entail laying off fourteen (14) or fifteen (15) of its twenty one (21) employees, leaving the remaining employees responsible for protecting over 20,000 citizens and property assessed at over $53,000,000. All services secondary to emergency responses would have to be eliminated.

The total elimination of property taxes would cause the District to cease to exist.

If you have any questions concerning the response of this District, please feel free to contact us at 422-1102.

Respectfully submitted,

R. V. Dawkins,
Fire Chief

Sweetwater Union High School District

ADMINISTRATION CENTER
1130 FIFTH AVENUE
CHULA VISTA, CALIFORNIA 92011
714 425-1700

EARL W. DENTON
DISTRICT SUPERINTENDENT

April 5, 1978

Blue Ribbon Commission
c/o Office of Management & Budget
County Administration Center
1600 Pacific Highway
San Diego, CA 92101

Dear Commission Members:

Thank you for your efforts in making a factual study of the effects of Proposition 13 on the taxpayers of the State of California and various agencies dependent upon revenue derived from property taxes. We feel that this study will be helpful in properly informing voters of the potential impact should the Jarvis-Gann Initiative be approved.

While there are many uncertainties contained in the Initiative, including, among others, the method of distribution of local taxes to the various local taxing authorities, our district has made some assumptions in order to assess the effect on our total instructional operations. Perhaps the data will be of assistance to you in your study.

If we assume that our district will receive the same proportionate share of taxes as we are receiving this year compared with the taxes of all agencies within our district, we stand to lose $6,830,000. In addition, since the tuition payments from the four elementary districts within our high school district boundaries for the education of 7th and 8th graders is derived from the local property tax, a proportionate loss of over $3,160,000 would occur. These two amounts total nearly $10,000,000, over 22% of the total income budgeted for the current school year. Should the distribution of taxes collected locally give our district more or less than the share now being received, this figure would obviously vary accordingly.

Another large loss could occur by reduction of revenue received from the state because of the requirement to levy at least an 80¢ tax rate within the district. Should the passage of Proposition 13 result in a tax rate below the 80¢ level, under current law the district would lose an estimated $9,650,000. This is in addition to the nearly $10,000,000 noted above, with the combined amount being approximately 41% of our total revenue budget. Needless to say, any combination of the above losses would have a devastating effect upon the instructional program of our district. No replacement revenues are included in the Initiative's provisions, and thus we have to conclude that the Sweetwater Union High School District would no longer be able to exist in any way resembling its former self.

Blue Ribbon Commission April 5, 1978

The "simple" solution of reducing expenditures to offset the revenue losses appears to be impossible when the total amount budgeted for the 1977-78 school year for all non-salary related expenditures is less than $7,000,000. This reduction would eliminate all books, supplies, equipment, utilities, insurance, etc. Even if this were possible, the additional reduction of approximately $13,000,000 would result in the layoff of approximately one-third of all employees of the district, nearly 700 employees.

As we pointed out earlier, the total impact of voter approval of the Jarvis-Gann Initiative is impossible to predict accurately. However, the above data presents what we feel is a fair picture, based on the assumptions listed.

Should you have need of additional information regarding our district, please contact me.

Very truly yours,

Earl W. Denton

Earl W. Denton
District Superintendent

EWD:ap

cc: Lucille V. Moore, Chairwoman,
Board of Supervisors

ESTABLISHED IN 1918 AS A PUBLIC AGENCY

COACHELLA VALLEY COUNTY WATER DISTRICT

POST OFFICE BOX 1058 • COACHELLA, CALIFORNIA 92236 • TELEPHONE (714) 398-2651

DIRECTORS
RAYMOND R. RUMMONDS, PRESIDENT
TELLIS CODEKAS, VICE PRESIDENT
C. J. FROST
WILLIAM B. GARDNER
STEVE D. BUXTON

OFFICERS
LOWELL O. WEEKS, GENERAL MANAGER-CHIEF ENGINEER
OLE J. NORDLAND, SECRETARY
WALTER R. WRIGHT, AUDITOR
REDWINE AND SHERRILL, ATTORNEY

April 6, 1978

Chairman Lucille V. Moore
Board of Supervisors
County of San Diego
1600 Pacific Highway
San Diego, California 92101

Dear Ms. Moore:

Your invitation to participate in a Blue Ribbon Commission is appreciated; however, this District is already involved in a similar ad hoc group organized by the County of Riverside in similar activities. Therefore we must decline participation in your commission.

Yours very truly,

Ole J. Nordland
Secretary

OJN:mah

CITY OF CORONADO

1825 STRAND WAY
CORONADO, CA. 92118

CITY HALL
(714) 435-2211

April 6, 1978

Blue Ribbon Commission
c/o Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, California 92101

The City of Coronado received a communication from Lucille Moore, Chairman of the Board of Supervisors, requesting input from cities regarding the Jarvis/Gann Initiative.

Attached for your information is a memorandum showing the financial impact on income that both the Jarvis/Gann Initiative and the Behr Bill would have on the City of Coronado.

No policy decisions have been made by the city regarding programs, if the Jarvis/Gann Initiative is successful.

Sincerely,

Warren S. Benson

Warren S. Benson
City Manager

WSB/pl

Attachment

CITY OF CORONADO

INTER-DEPARTMENTAL MEMORANDUM

To: City Manager **From:** Assistant to the City Manager

Dept.: City Manager's Office **Dept.:** Administrative Services

Subject: Analysis of the Jarvis/Gann Initiative and Senate Bill 1 (Behr) **Date:** March 29, 1978

The analysis of the two above mentioned property tax measures is divided into two parts. Both measures are reviewed separately by presenting a synopsis of the legislation, assumptions as to how the bills will be implemented, and the impact of them on Coronado based upon the information we have available to date.

Jarvis/Gann Initiative

1. The Jarvis/Gann Initiative contains the following provisions:

   A) Limits ad valorem property taxes of all real property to one percent (1%) of the full cash value of the property;

   B) Exempts voter approved bonded indebtedness which is approved prior to July 1, 1978, from the 1% limitation;

   C) Defines "full cash value" as the Assessor's appraised value of real property as of March 1, 1975, adjusted by charges in the Consumer Price Index not to exceed 2% per year;

   D) A new "full cash value" is established when there is new construction or a change in ownership;

   E) Permits the reassessment, up to March 1, 1975, values of property which was not current on the 1975-76 assessment role;

   F) Requires counties to collect the 1% property tax and to apportion it according to law to the districts within the counties.

   G) Prohibits new ad valorem taxes on real property, or sales taxes, transaction taxes, or the sales of real property;

   H) Permits the imposition of special taxes by local agencies, other than those prohibited, by a two-thirds (2/3) vote of the "qualified electors" of such agencies;

   I) Requires a two-thirds (2/3) vote of all members of both houses of the Legislature for any changes in State taxes which would result in increased revenue. This section would become effective the same day as the passage of the Initiative.

2. The following assumptions have been made concerning certain ambiguous or unclear provisions of the Jarvis/Gann Initiative:

   A) The homeowner exemption is reduced by the same percentage as the reduction in the tax rate;

B) The City will continue to receive its property tax apportionment in relation to other taxing agencies in the same ratio as property tax revenues were distributed in 1975-76;

C) The City could not increase any special taxes which the City is authorized to levy after July 1, 1978, unless a two-thirds yes vote of the qualified electors was received. This would include such levies as the Transient Occupancy Tax;

D) "Qualified Elector" may at the least refer to a registered voter and at the most any citizen 18 years or older;

E) The City of Coronado is eligible to receive property tax revenues as a taxing "district" as referred to in the Jarvis/Gann Initiative.

3. There are two City revenue sources directly affected by the Jarvis/Gann Initiative: property tax and federal revenue sharing. Listed below are the revenue estimates from these two sources with or without the passage of the Jarvis/Gann Initiative:

Property Tax Revenue

1978-79 Estimate	Jarvis Estimate	Difference	%
$2,513,372	$1,014,454	$1,498,918	59.6%

Revenue Sharing

1978-78 Estimate	Jarvis Estimate	Difference	%
$165,000	$66,660	$98,340	59.6%

Total Revenue Loss = $1,597,258

Total 1978-79 Revenue Projection = $5,921,123

Percentage of Revenue Loss in Relation to Total Revenue Projected for 1978-79 Fiscal Year = 30.0%

The City may also lose some revenue indirectly in that there will be less money available to match federal and state matching grants.

Senate Bill 1 (Behr) and Proposition 8

1. The combination of Senate Bill 1 (Behr) and Proposition 8, which establishes a split tax roll, will do the following:

   A) Provides tax relief to homeowners equal to at least thirty percent (30%) of existing taxes;

   B) Reduces the County's contribution to Medi-Cal and the State Supplementary Aid Program;

   C) Relieves the County of its cost for Health and Welfare costs;

   D) Increases renter relief by $38 to $75 annually;

   E) Increases the senior citizens' property tax relief benefits and extends benefits to surviving spouses;

   F) Provides property tax revenue limitations on local governments using the split-rate tax roll, so that the annual increase in owner-occupied dwellings property taxes may not exceed the yearly increase in the Gross National Product Implicit Price Deflator;

   G) Limits State revenues from major taxes and licenses to an amount not to exceed an annual increase equal to the percentage increase in the California personal income multiplied by a revenue elasticity factor of 1.2;

   H) Limits the percentage change in counties payments for Medi-Cal and State Supplementary Aid Program to the percentage change in actual tax levy;

   I) Requires the Assessor to immediately begin determining the properties which are common to both the 1977-78 and 1978-79 roll to determine those properties which would be taxed as owner occupied dwellings under Proposition 8;

   J) Unless Proposition 8 is approved by the voters and Proposition 13 is defeated in June, 1978, Senate Bill 1 (Behr) is repealed.

2. The following assumptions are made concerning the enactment of Senate Bill 1 (Behr) and Proposition 8.

   A) The Gross National Product Implicit Price Deflator shows an increase of 7% between January 1, 1977 and January 1, 1978;

   B) Owner occupied dwellings constitute approximately 70% of the total taxable assessed value on the 1977-78 secured tax role;

   C) The owner-occupied roll of existing properties will increase 10% on the 1978-79 secured roll;

   D) There will be an increase on the owner-occupied roll of 4% in 1978-79 due to new construction.

3. Property taxes and Federal Revenue Sharing are affected by Senate Bill 1 (Behr) in that future revenues will be limited by the Gross National Product Implicit Deflator.

Property Tax Revenue

1978-79 Estimate	Senate Bill 1 Estimate	Difference	%
$2,513,372	$2,431,783	$81,519	3.2%

Revenue Sharing

1978-79 Estimate	Senate Bill 1 Estimate	Difference	%
$165,000	$ 159,720	$ 5,280	3.2%

Total Revenue Loss = $ 86,869

Total 1978-79 Revenue Projection = $5,921,123

Percentage of Revenue Loss in Relation to Total Revenue Projected for 1978-79 Fiscal Year = 1.5%

Ray Silver

Ray Silver

RRS:mm

SOUTHWESTERN
COLLEGE
900 Otay Lakes Road / Chula Vista, California 92010 *Phone 421-6700*

April 6, 1978

Lucille Moore, Chairwoman
Board of Supervisors
County of San Diego
1600 Pacific Highway
San Diego, California, 92101

Dear Ms. Moore,

We are happy to hear that there will be a Blue Ribbon Commission set up. We are enclosing an analysis of the effects of Jarvis on the Sweetwater Community College District.

We would appreciate knowing any new and different interpretations to update the effects of Jarvis. Please feel free to ask any information of us which will help you in your efforts.

Sincerely,

Christine R. Eldred

Mrs. Christine R. Eldred
Dean of Business Services

CRE/sr
Encl.

SWEETWATER COMMUNITY COLLEGE DISTRICT

Jarvis-Gann Property Tax Initiative Effects

Formula as proposed by CCC Memo F-369 - attached.

(1) 1975-76 - Gross Assessed Valuation

Secured Tax Roll - Local		$ 503,793,510
Secured Tax Roll - State		42,884,780
Unsecured Tax Roll		49,509,030
Total		596,187,320
Coronado - All Taxes		81,924,582
Total A/V 1975-76		$ 678,111,902

(2) Full Cash Value (x4) $2,712,447,608

(3) Add 2% for 1976-77 $2,766,696,560

(4) Add 2% for 1977-78 $2,822,030,491

(5) Add 2% for 1978-79 $2,878,471,101

(6) New construction estimate & change in ownership. (County Board assumes 25% of increase. 1976-77 and 1977-78 was due to new construction and 10% change in ownership)

1977-78 Assessed Valuation	$813,304,479	
1975-76 Assessed Valuation	678,111,902	
Increase	$135,192,577	
35% of Increase ($135,192,577)		$ 47,317,402
Estimate at 50% of above increase for 1978-79		23,658,701
Full cash value eligible for revenue determination as of 1978-79		$2,949,477,204

(7) Allowable Revenue (1% of above) $ 29,494,772

(8) Our percentage of present taxes levied in the Sweetwater Community College District boundaries. (Total tax rates vary from $8.22 to $11.55, therefore, 49¢ represents approximately 5% of total.)

(9) District share of revenue at 5% $ 1,474,738

(10) Loss as result of present income

	1977-78	Estimated* 1978-79
General Purpose	$3,562,028	$3,918,231
Community Services	430,453	473,498
Total	$3,992,453	$4,391,729
District share of revenue (line 9)		1,474,738
Estimated district loss for 1978-79		$ 2,916,991

*Assume no increase in tax rate and an A/V growth of 10%.

THE CITY OF
SAN DIEGO

April 10, 1978

TOM GADE
COUNCILMAN

Blue Ribbon Commission
c/o Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, CA 92101

Dear Commissioners:

In response to the letter of March 29, 1978, from the Board of Supervisors I am taking this opportunity to comment on the tax-relief measure on the June 6 ballot known as Proposition 13.

The matter of tax relief is extremely important to California taxpayers and my publicly announced support for Proposition 13 is based on the feedback and feeling that I have received from the citizens of San Diego. I have long held the belief that government is too large and too expensive. In recent years this increase in size has reduced the responsiveness of government and resulted in many actions that have run counter to the expressed wishes of taxpaying citizens.

The passage of Proposition 13 will put substantial limits on elected officials and force some of the more free-spending to curtail the blank check approach to government that has become so common at all levels. I do not for a moment believe the assertions of Proposition 13 opponents. At the local level a tremendous amount of "fat" can be trimmed without substantially affecting essential services. It is this very "fat" that creates the bulk of the unacceptable tax burden and that elected officials have been unwilling or unable to trim to any significant degree.

As the commission considers the wealth of information generated in the wake of Proposition 13, I would urge you to take a hard look at the positive benefits of reduced government spending and balance this evidence against the "gutted government" and "massive cuts in services" scenarios painted by opponents of Proposition 13.

Sincerely,

Tom Gade

TOM GADE, COUNCILMAN
Sixth District

TG:ecl

Spring Valley Fire Protection District

905 GILLESPIE DRIVE • TELEPHONE 463-0209 • SPRING VALLEY, CALIFORNIA 92077

District Secretary: DOROTHY G. PENNICK

Fire Chief: DARYEL D. STAGER

Board of Directors:
R. H. ALLEN
W. R. BRIDWELL
S. L. FILLET
A. S. SCHAFER
S. R. TOTTEN

April 10, 1978

Blue Ribbon Commission
% Office of Management & Budget
County Administration Center
1600 Pacific Highway
San Diego, California 92101

Dear Commission Members:

I received a letter from Chairwoman Lucille Moore asking if we had any comments to make to your Commission re Proposition #13, the Jarvis/Gann Initative.

These are the following reductions that our fire department would have to make if Propostion #13 passes and the Legislature does not enact any laws making up for loss in revenue.

Assuming that we would have approximately 60% less revenue for the 1978/79 budget year, we would have to do the following: layoff approximately 34 personnel out of a total working force of 56; close one fire station; discontinue our paramedic service.

Also, affected would be our fire prevention and inspection bureau. This would severly harm the effectiveness of the Spring Valley Fire Protection District, and in turn would severly affect all the citizens of Spring Valley.

Hoping this information will be of help to you, If you have any additional questions, please contact me.

Very truly yours,

Daryel D. Stager

Daryel D. Stager, Chief

DDS:mm



Grossmont Union High School District

L. B. Newcomer, Superintendent

April 11, 1978
Refer to: JB-5910

Mrs. Lucille V. Moore
Chairwoman, Board of Supervisors
County of San Diego
1600 Pacific Highway
San Diego, California 92101

Dear Mrs. Moore:

Congratulations on the County's efforts to generate factual pro and con information on the Jarvis-Gann Initiative. After reading the local papers and particularly the letters to editors, there is considerable misinformation being generated. The one significant piece of information concerning schools is the State Constitution calls for the schools to have first priority on the State funds. That statement, as far as it goes, is correct, but it is limited to up to $180 which is considerably below the present level of $686. The problem is further complicated with the significant reduction of local revenues.

When the Blue Ribbon Committee is formed, please let our District know what factual data can be utilized.

Sincerely,

John C. Barrons
Deputy Superintendent
Business Operations

Post Office Box 1043 / La Mesa, California / 92041 / Telephone (714) 465-3131

LOWER SWEETWATER
FIRE PROTECTION DISTRICT
2711 GRANGER AVENUE
NATIONAL CITY, CALIFORNIA 92050

PHONES:
EMERGENCY:
475-8822
INFORMATION:
475-8823
FIRE CHIEF:
Clinton L. Jones

DIRECTORS
Harriet F. Acton
CHAIRMAN
Edwin L. Spencer
VICE CHAIRMAN
Edward A. Thomas
SECRETARY

April 11, 1978

Blue Ribbon Commission
% Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, Ca. 92101

In regards to your letter concerning the Jarvis/Gann property tax initiative. Our district operates soley on the taxes collected by property taxes. A 60% reduction in property tax revenue would eliminate the paid professional firefighters of this district. The purpose of the fire protection district is that of fire protection which consist of a fire suppression and fire prevention programs. Under present law fire protection districts have no alternate revenue sources. A total elimination of property taxes to this district would place our residents with no fire protection services. For additional information feel free to contact myself or this district.

Sincerely,

Edward A. Thomas

Edward A. Thomas
Secretary

ET/la

San Marcos Cemetery District
P.O. Box 217 • San Marcos • California 92069

Board of Trustees
Stanley A. Mahr
Kenneth G. Jensen
William W. Rucker

April 11, 1978

Blue Ribbon Commission
c/o Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, Ca. 92101

It is the concensus of the Board of Trustees of the San Marcos Cemetery District that the Jarvis-Gann Initiative, being a ballot proposition, cannot be given approval or disapproval by a special district. Judging by some of the controversial issues such as have been explained to us, we believe that we will still have the ability to function properly in the event it is passed by the voters in June. We have the right to collect certain fees which will make up for any tax losses due to the approval of the measure.

If we can be of any further assistance in your endeavor to compile information, please do not hesitate to contact us.

Sincerely,

Stanley A. Mahr

Stanley A. Mahr
Board Chairman

COMMUNITY DEVELOPMENT COMMISSION

of the

CITY OF NATIONAL CITY

Chairman
KILE MORGAN

JOSEPH L. CAMACHO
MICHAEL R. DALLA
JESS VAN DEVENTER
GEORGE H. WATERS

Executive Director
ARNOLD A. PETERSON

April 12, 1978

Blue Ribbon Commission
C/O Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, California 92101

Dear Commission Members:

Subject: Effect of Jarvis-Gann Initiative on National City Redevelopment Agency

This is in response to the letter of Lucille V. Moore, Chairwoman, County Board of Supervisors dated March 29, 1978.

The Redevelopment Agency of the City of National City has the following tax allocation bond issues outstanding:

(1) E. J. Christman Business & Industrial Park Redevelopment Project $650,000 Series A, issued February, 1975, repayment period 1975 to 2001.

(2) South Bay Town & Country Redevelopment Project $690,000 Series A, issued October, 1975, repayment period 1976 to 2000.

Under the present tax system we have $187,207 (1978-79) to pay the $63,000 annual payment on E. J. Christman Project and to pay for other project facilities and public works. We have $159,121 (1978-79) to pay the $64,000 annual payment on South Bay Town & Country Project and to pay for other project facilities and public works. Under Jarvis-Gann we would have $72,743 (1978-79) E. J. Christman Project and $61,246 (1978-79) on South Bay Town & Country Project. We therefor would not default but we would be prevented by Jarvis-Gann from pursuing further the public development goals in each Project for lack of financial resources.

I enclose a document entitled "Overall Plan for Community Development and Redevelopment" which tells who we are and what we are doing in our Projects and Programs.

The need for redevelopment in National City is very intense. Jarvis-Gann, by reducing tax increment revenue within our E. J. Christman Project, South Bay Town & Country Project and Center City Project by 60% would cripple our redevelopment programs and efforts and also cripple our related housing improvement

and rehabilitation efforts which rely heavily on tax increment financing. Twenty percent or more of the tax increments must be used for housing assistance for low and moderate income persons and families pursuant to State Redevelopment Law Section 33334.2.

Our Projects are shown at page 10 of the "Overall Plan". Jarvis-Gann would defeat our implementation of 5, Amendment No. I, E. J. Christman Project, and 6, our proposed Amendment No. 1, Center City Project, about 50 blocks of which would be a neighborhood improvement and housing rehabilitation effort.

I hope this information is of assistance to your Committee in its analysis and evaluation.

Very truly yours,

Arnold A. Peterson
Executive Director

AAP:sm

10/4/77
Rev. 4/7/78

OVERALL PLAN FOR COMMUNITY DEVELOPMENT AND REDEVELOPMENT

The City of National City, in 1974, after more than 30 public meetings and public hearings before the City's General Plan Committee, the Planning Commission, and the City Council, adopted its updated General Plan. The General Plan, accompanying this narrative, is implemented through Planning Department, Planning Commission, and City Council approvals of private development plans and through the City's Capital Improvement Program. The General Plan is also implemented through the Projects and Programs of the City's Community Development Commission (a redevelopment agency and a housing authority operating pursuant to the California Community Redevelopment Law and the California Housing Authorities Law, respectively) and through the City's recently created Parking Authority, which operates pursuant to the California Parking Authority Law of 1949. The City Council members are the Board Members of the Community Development Commission and of the Parking Authority.

National City is an older City, founded in 1868 and incorporated in 1887, with a current population of about 47,000 and with generally more deterioration in housing, commercial and industrial areas than other Cities in San Diego County. The City is substantially built up and consists of about 8 sq. miles bounded by the City of San Diego on the North, the City of San Diego and the County of San Diego on the east, the Pacific Ocean on the West, and the City of Chula Vista on the South. Unlike many other California cities, National City has no large vacant or agriculture areas adjacent to the City to annex to the City in order to increase the tax base. The city's population is generally of a lower income with a higher proportion of elderly and minority persons than in San Diego County generally. The City of National City currently and historically has had higher unemployment rates than San Diego County generally. See the accompanying General Plan Technical Report pages 13, 15, 43 and 57.

The City has a particularly intense need to redevelop its physical facilities, private and public, in order to regenerate its economic base, including jobs, sales tax revenue and property tax revenue.

The City's General Plan therefore reflects, opposite page 14, rather extensive redevelopment survey areas. Current Projects and Programs of the City's Community Development Commission, are as follows:

(1) E. J. Christman Business & Industrial Park I Redevelopment Project, a 93 acre federal aid urban renewal project. The voters of National City approved this Project by a 2 to 1 margin in 1968.

Approximately 75 acres was added to this Project by City Council Ordinance No. 1610 adopted December 13, 1977.

(2) South Bay Town & Country Project, a 25 acre community retail shopping facility, a redevelopment project pursuant to State law.

(3) Center City Project, a 107 acre housing production, neighborhood improvement and historic preservation project which combines the Community Development Commission's functions as a redevelopment agency and a housing authority. This Project is financed mainly by the City's $3.34 million Community Development Block Grant pursuant to the U. S. Housing and Community Development Act of 1974. The voters of National City approved the 300 units of Seniors Housing proposed within this Project by a 5 to 1 margin in 1977.

The Community Development Commission proposes to add about 200 acres to this Project in 1978.

Each of these Projects represents a substantial reinvestment of Public and private funds to expand employment, retail sales and property tax revenue to the City of National City. These Projects are each described in more

detail in the "Projects and Programs Summary and Report", below.

The Bonita Plaza Shopping Center, a project of the May Stores Shopping Centers, Inc., the City of National City and the Parking Authority of the City of National City is also described in the"Projects and Programs Summary and Report" below.

The Section 8 Housing Assistance Payments Program described at Section 5 of the "Projects and Programs Summary and Report" will benefit low and moderate income persons in all areas of the City to the extent of $2.5 million over the five year program period. The Housing Assistance Payments Program is further described in two brochures which accompany this narrative.

The City's housing inventory and needs are described in Chapter VII of the General Plan. The above Section 8 Program is intended to assist in meeting these needs. Residential Service Areas are shown opposite page 56 of the General Plan. The Community Development Commission's adopted Home Improvement Loan Program serves the areas marked 3a, 3b, 1a and 1b shown on the General Plan drawing opposite page 56. These areas 3a and 3b are for the most part, co-terminus with the Center City Redevelopment Project Area and (Areas 1a and 1b) with the "West Side" a primarily residential area with a primarily Mexican American population. The agreement with the Bank of America for the Home Improvement Loan Program accompanies this narrative. The brochures describing this Program in Spanish and in English also accompany this narrative. Funds used for this Program are Community Development Block Grant Funds (U. S. Housing Act of 1974) and HUD Section 312 Rehabilitation Loans.

The Project having the greatest impact on the City of National City is the Bonita Plaza Regional Shopping Center which is described in the"Projects and Programs Summary and Report"and is described in more detail following that document.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
(A REDEVELOPMENT AGENCY AND A HOUSING AUTHORITY)

PROJECTS AND PROGRAMS SUMMARY AND REPORT

October, 1977

1. E. J. CHRISTMAN BUSINESS & INDUSTRIAL PROJECT: (A Redevelopment Project)

Approved by Ordinance November 18, 1969. This Project was approved 2 to 1 by the voters of the City.

93 Acres. 71 net acres for private redevelopment. Land uses are automotive sales and business and light industrial park.

The Project is numbered 1 on Exhibit 1. Project detail is shown on Attachment 1.

Mile of Cars along National Avenue from 22nd Street to 30th Street. Major business and industrial developers are Collins Development Company, 25 acres, and Investcal, 13 acres. Frank Motors, Balboa Datsun and Westcott Mazda are major new car sales developments to date.

Gross Cost	$10,200,000	
Less Land Proceeds	3,700,000	
Net Cost	6,500,000	
Local Grant	1,600,000	(1/4 of Net)
Federal Grant	4,900,000	(3/4 of Net)
Relocation Grant	435,000	(100% Federal Grant)

A Federal aid "Title I" Urban Renewal Project. Work in progress is grading and surcharge, 24th Street southerly of Wilson Avenue, 68,000 cubic yards. R. E. Hazard Contracting Company, San Diego, is the general contractor. Charles W. Christensen & Associates, San Diego, are the Project Engineers.

Total Project investment is $20 to $25 million.

This Project is currently being amended to extend northerly to 16th Street and westerly of National Avenue to Paradise Creek Channel and to Interstate Highway 5 at 24th Street. It is also being extended on both sides of National Avenue to 32nd Street (City Limit) for new car sales ("Mile of Cars").

2. BONITA PLAZA SHOPPING CENTER: (Not a Redevelopment Project)

This Project, numbered 2 on Exhibit I, was first approved by City Council Ordinance on September 10, 1976 as a Redevelopment Project. It was litigated by the Sweetwater Valley Civic Association and others. Although the Superior Court and the District Court of Appeals ruled in favor of the Redevelopment Agency and the City of National City the State Supreme Court in June, 1976 ruled against the Project as a Redevelopment Project and reversed the lower courts.

The May Stores Shopping Centers, Inc., the City of National City and the Parking Authority of the City of National City are now pursuing this Project as a private project with some assistance from the City and the Parking Authority. The May Company has purchased the 16 acre building envelope for the Center and the City and the Parking Authority have purchased the balance of the Project land for drainage and open space area and for public parking facilities (about 100 acres).

Proposed:	Sq. Ft.
May Company	250,000
Department Store	130,000
Department Store	125,000
Jr. Department Store	80,000
	585,000
Stores and Shops	215,000
	800,000

About 4,000 parking spaces, 50 acres of open space, and 75 acres in the Center and related parking facilities is proposed. Sales volume will be about $76.5 million per year with $765,000 sales tax revenue per year to National City and about $200,000 per year property tax revenue to the City of National City.

The Project has been substantially scaled down from the earlier Redevelopment Plan proposal of about 1 million sq.ft. of commercial space to 800,000 sq.ft. and the open space has been increased from about 23 acres to approximately 50 acres.

The total Project investment is about $60 million.

It will take from two to three years for completion and occupancy of the Project. The development plan is Attachment II hereof.

3. SWEETWATER TOWN AND COUNTRY PROJECT: (A Redevelopment Project)

Approved by Ordinance June 24, 1975.

25 acre community shopping facility with related freeway oriented commercial development.

Project is Number 3 on Exhibit 1. Site Plan is Attachment 3.

Major developers - Collins Development Company and La Jolla Development Company.

Safeway, Longs Drugs, Gibraltar Savings and Loan, Swensons Ice Cream, Town and Country Bowling Center, and other stores and shops built, cost $5.0 million. Total project investment is $8 to $10 million.

Project completion 1979

4. CENTER CITY PROJECT: (A Redevelopment Project)

Approved by Ordinance April 13, 1976.

107 acres housing production, neighborhood improvement and historic preservation project.

The Project is being financed with $3.4 million Community Development Block Grant Funds pursuant to the U. S. Housing & Community Development Act of 1974 and the State Laws on housing and redevelopment. We have obtained a commitment from HUD, FHA for $5.0 million mortgage insurance and Section 8 Housing Assistance Payments for elderly and handicapped for the 151 units. The value of these payments over the life of the Section 8 contract is $20 to $25 million. We also recently received approval by HUD of the Third Year Community Development Block Grant funding in the amount of $841,000. (The Program is funded annually.)

The Project is number 4 on Exhibit 1. The Site Plan is Attachment 4.

Referring to the Site Plan, Attachment 4, the Project consists of the following described activities:

(1) Seniors' housing and related facilities on sites A-1, A-2 and A-3 which are currently owned by the City and donated for the purpose of seniors' housing. These sites are presently vacant land. (Site A-4 is to be acquired by the Community Development Commission for seniors' housing.) 300 such units were approved by the voters of National City by a four to one margin in June, 1977.

(2) Thirty units of new condominium sales housing on sites B-1 and B-2 which are presently vacant land.

(3) Fifteen new condominium units on site B-3, presently vacant land.

(4) Ninety public parking spaces on sites C-1 and C-2 to serve the Community Building and Kimball Park. A small office building or a small apartment building may be built on site C-1 or C-2.

(5) Preservation of an historic building locally known as "Brick Row" and located on site D-1 and relocation to site D-2 and historic preservation of an historic building locally called "Kimball House" and another locally called the"Elizur Steele-Crandall-Ennis House".

(6) A new streetscape from 9th Street to 12th Street along "A" Avenue from "Brick Row" to the Civic Center.

(7) Redesign and redevelopment of Kimball Park by the City of National City using State Park Bond Act funds and City funds including provision of recreational facilities for senior citizens.

(8) A program and system of home and property improvement loans combined with improvements of public rights of way and public facilities for the entire Center City Project area.

(9) Such home and property improvement loans for the entire adopted Housing Assistance Area, including the area locally known as the "West Side", a primarily Mexican-American area.

(10) HUD Section 312 Rehabilitation loans for residential properties within the adopted Housing Assistance Area.

The total project investment is about $30 million.

Project Completion 1985.

5. SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM:

The Community Development Commission, in its capacity as Housing Authority, has a contract with the U. S. Department of Housing & Urban Development for 400 units Section 8 Existing Housing Payments. The 400 units consists of two contracts, each for 200 units, and each runs 5 years. 195 units are presently leased. 400 will be leased up in about 1 year.

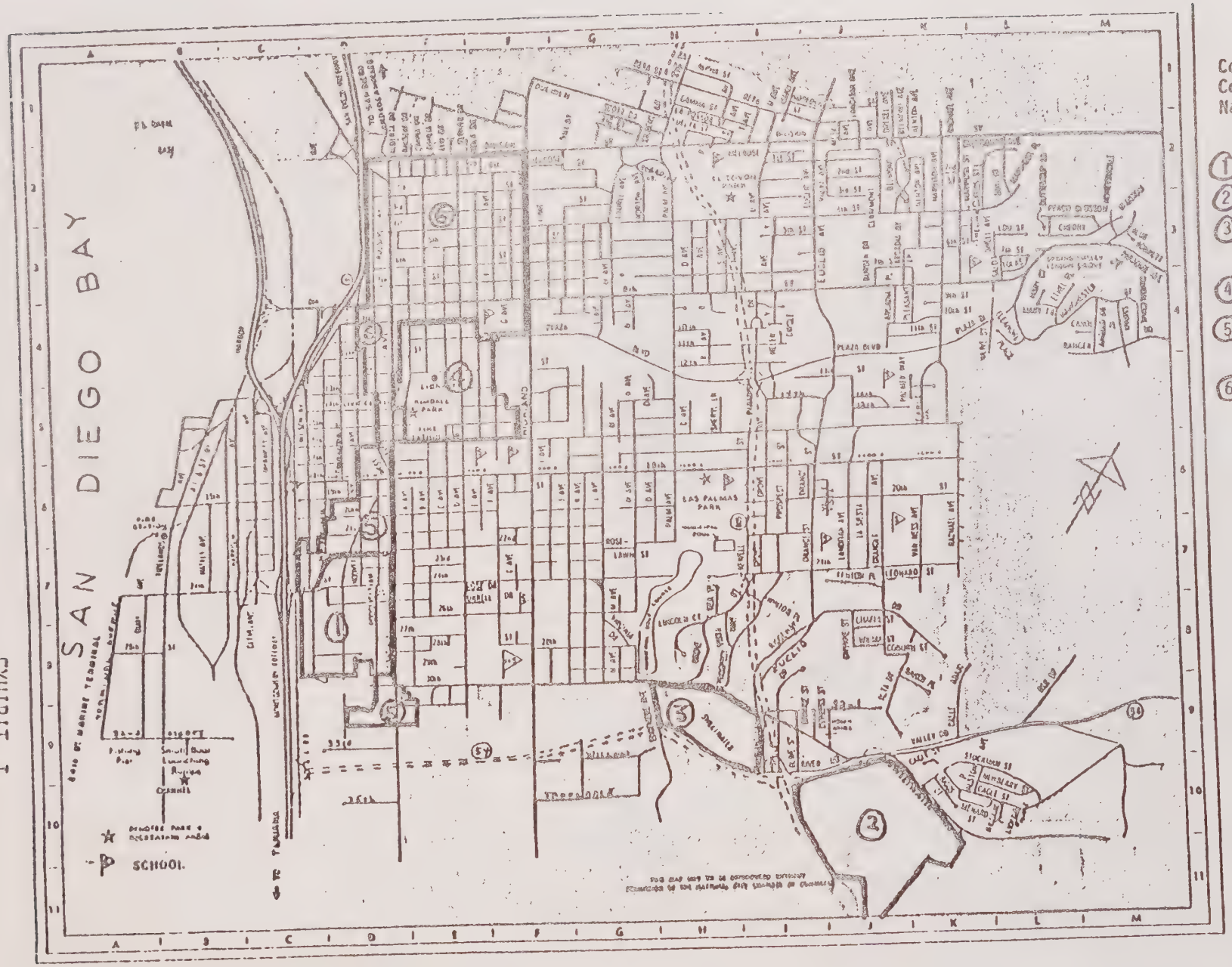
This is a voluntary program under which an owner may lease, usually one year at a time, to an eligible tenant an apartment or a house that meets the housing standards of the Community Development Commission which are approved by HUD. An average subsidy is about $100 per month. The probable total assistance under the two contracts over the five years is $2.5 million.

This Program is City wide but the Community Development Commission may not contract on any units outside the City of National City.

October 4, 1977
April 7, 1978

Arnold A. Peterson, Executive Director

EXHIBIT I



Community Development Commission of the City of National City, California

1. E.J. Christman Project
2. Plaza Bonita Shopping Center
3. South Bay Town & Country Project
4. Center City Project
5. E.J. Christman Project Amendment No. I
6. Center City Project Proposed Amendment No. I

E J CHRISTMAN BUSINESS AND INDUSTRIAL PARK 1

MAP NO 8038

CITY OF NATIONAL CITY, CALIFORNIA, MAP RECORDED BY SAN DIEGO COUNTY RECORDER NOVEMBER 7, 1974 (FILE NO. 74-296198)

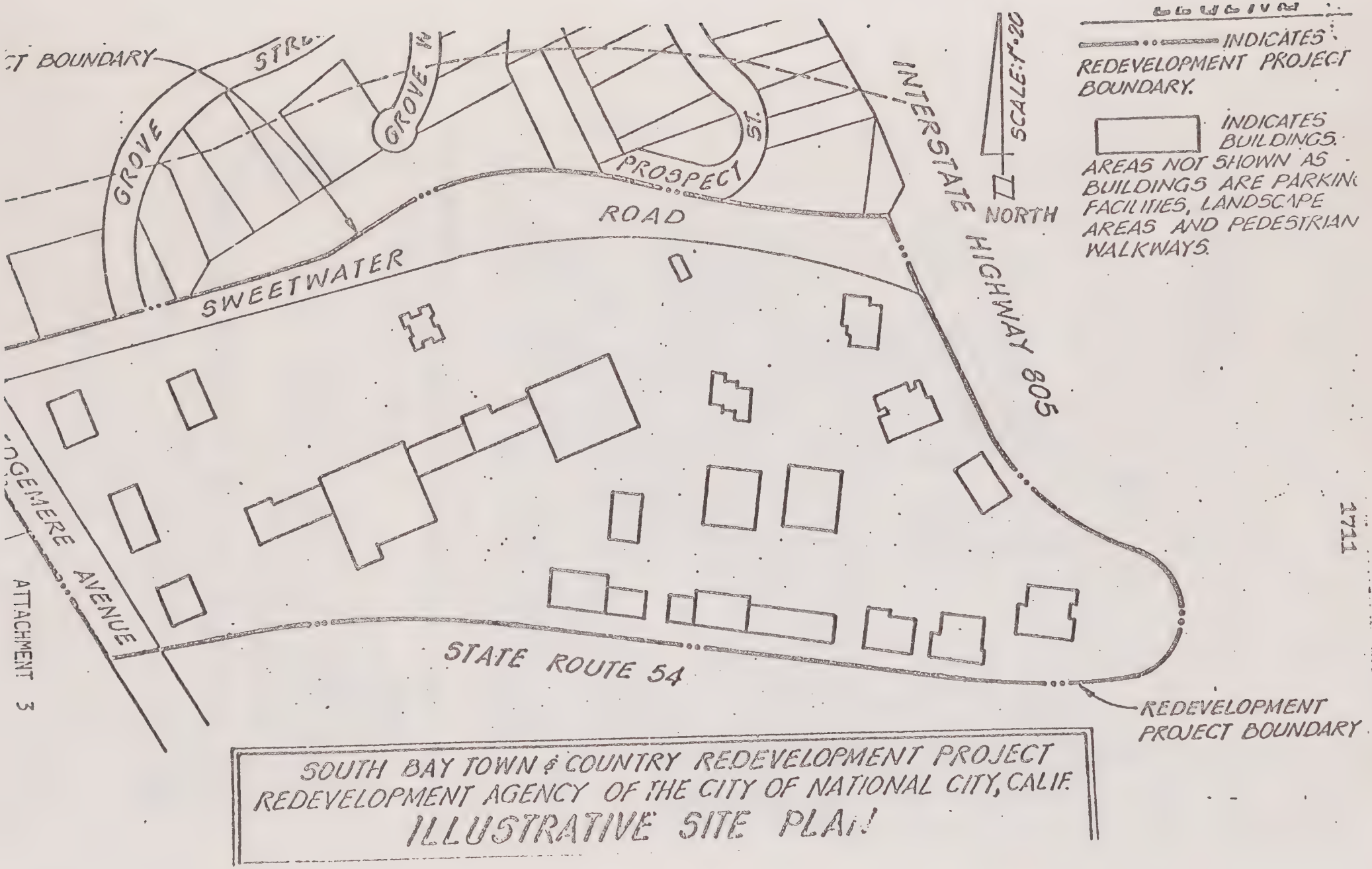


KEY TO LOCATIONS

Parcel Numbers	Acres	Automotive Dealerships:
3	2.2	Frank Motors Lincoln-Mercury, newly developed.
4	2.2	Frank Motors, Toyota, newly developed.
5	4.5	Balboa Datsun, newly developed.
6	2.3	Westcott Mazda, Inc., newly developed.
		Light Industrial Developments:
7, 8, 9, and 10	13.1	Investcal Realty Corporation. Lots 9 and 10 (5.9 acres) are deeded and 105,000 sq.ft. of light industrial buildings are constructed. Value about $2 million. Lots 7 and 8 (7.2 acres) were conveyed in April, 1978.
15, 16, 17, 18, 19, 20 and 21	25.0	C.I.P. Venture. Lots 16,17,18,19 and 20, (15.3 acres), are deeded and 215,000 sq.ft. of light industrial buildings are constructed. Value about $4 million. Lots 15, 21 (9.5 acres) are under land sale contract.
		Other Sites:
1, 2	5.5	Alfa Romeo-Puegot on northerly 1/2, Subaru on southerly 1/2. (Daily and Webster)
12, 13	4.9	Motor home leasing northerly portion, automotive service center southerly portion. (Webster and Associates)
11	3.1	Optioned for office building, bank and restaurant (C.I.P. Venture)
14	8.3	For business and service use with light industrial alternative use. (Not owned by Community Development Commission)
	71.1	

ATTACHMENT 1

ATTACHMENT 11



SOUTH BAY TOWN & COUNTRY REDEVELOPMENT PROJECT
REDEVELOPMENT AGENCY OF THE CITY OF NATIONAL CITY, CALIF.

ILLUSTRATIVE SITE PLAN

ATTACHMENT 3

1711



LEGEND

- EXISTING CIVIC CENTER
- COMMUNITY BUILDING
- LIBRARY
- RECREATION BUILDING
- FIRE STATION
- CATHOLIC SCHOOL
- BOYS CLUB
- GIRLS CLUB
- PROPOSED SENIORS HOUSING (High-rise, 1 & 2 - Story)
- SENIORS HIGH-RISE
- MULTIPLE FAMILY HOUSING
- OFFICE AND/OR APARTMENT COMPLEX
- EXISTING BRICK ROW
- RELOCATED HISTORIC BUILDINGS
- MAJOR PEDESTRIAN CIRCULATION

ILLUSTRATIVE SITE PLAN

NUMBER OF BLOCKS

NORTH

CENTER CITY PROJECT

Community Development Commission
City of National City, California

VAN DYKE & ASSOC., INC. ILLUSTRATIVE SITE PLAN

ATTACHMENT 4

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
(A REDEVELOPMENT AGENCY AND A HOUSING AUTHORITY)
National City, California

COMMUNITY DEVELOPMENT COMMISSION AND CITY OF NATIONAL CITY
Civic Center
1243 National Avenue
National City, California 92050
(714) 477-1181

(1) Community Development Commission Board Members

Kile Morgan, Chairman	Extension 24
Joseph L. Camacho (Vice-Chairman)	Extension 29
Michael R. Dalla	Extension 27
Jess Van Deventer	Extension 26
George H. Waters	Extension 28

(2) Committee for Housing & Community Development

Barbara Strahan, Chairwoman
1521 E. 22nd Street
National City, California 92050
427-7077

(3) Community Development Commission Staff:

Arnold A. Peterson, Executive Director	Extension 63
David L. Sheldon, Ass't Director, Rehabilitation	Extension 63
Lawrence E. Hess, Ass't Director, Housing	Extension 63
Thomas C. Morrow, Ass't Director, Redevelopment	Extension 63
Richard B. Harms, Housing Coordinator	Extension 33
Shirley Mulligan, Administrative Assistant	Extension 63
Norma Canizales, Housing and Relocation Ass't.	Extension 63

(4) City of National City Staff:

Harry Gill, City Manager	Extension 22
Dale Hoffland, City Engineer	Extension 52
Malcolm Gerschler, Planning Director	Extension 61
N. S. Biggs, Building & Housing Director	Extension 71
Bill Wright, Chief, Fire Department	Extension 40
Warren Kanagy, Chief, Police Department	Extension 74

EJCP = E. J. Christman Project
BCP = Bonita Center Project
SBT&CP = South Bay Town & Country Project
CCP = Center City Project

CONTRACT CONSULTANTS:

(1) Seniors' Housing:

Richard George Wheeler AIA Associates
Architects and Engineers
3276 Rosecrans
San Diego, California
(714) 223-7101 (CCP)

Daniel B. Grady, President
Seniors Housing Consultant
Sanfric, Inc.
P. O. Box 81901
San Diego, California 92138
(714) 225-9417 (CCP)

(2) Economists:

Alfred Gobar Associates
207 South Brea Boulevard
Brea, California 92621
(714) 529-9411
Al Gobar (CCP)

(3) Engineers:

Arevalo & Safino, Inc.
8913 Complex Drive, Suite C
San Diego, California 92123
(714) 560-1141
John Rogers, Project Engineer (SBT&CP)

Charles W. Christensen & Associates
Civil Engineers
Suite 1200
233 "A" Street
San Diego, California 92101
(714) 232-7891
Bill K, Bramble, Project Engineer (EJCP, CCP)

Rick Engineering Co.
5620 Friars Road
San Diego, California 92110
(714) 291-0707
Lyle Gabrielson, Project Engineer (BCP)

(4) Land Planner:

Van Dyke & Associates
11722 Sorrento Valley Road
San Diego, California 92121
(714) 453-8690
Thomas G. Van Dyke (CCP)

(5) Real Estate Appraisers:

John Cotton, M.A.I.
Cotton Company Realtors
233 "A" Street
San Diego, California 92101
(714) 233-7611 (CCP)

Gerald S. Kibbey, M.A.I. & Associates
Real Estate Appraisers
2911 Cadiz Street
San Diego, California 92110
(714) 224-2781 (CCP)

(6) Attorney:

Donald F. McLean, Jr.
Civic Center
1243 National Avenue
National City, California 92050
477-1181 Ext. 25
All Projects and Programs

(7) Architect For Other Than Seniors' Housing

George T. Szabo, A.I.A.
1215 Cushman Street
San Diego, California 92110
(714) 297-3578 (CCP)

(8) Traffic & Parking Consultants:

James W. Federhart
Alan M. Voorhees & Assoc., Inc.
5252 Balboa Avenue
San Diego, California 9211
(714) 278-3363 (CCP)

(9) Environmental Consultants:

Environmental Impact Profiles
642 South B Street
Tustin, California 92680
(714) 544-3263 (BCP)

Owen Menard & Associates
222 Foothill Boulevard
Claremont, California 91711
(714) 624-2610 (BCP)

Michael W. Wright
WESTEC Services, Inc.
1520 State Street
San Diego, California 92101
(714) 233-7572 (CCP)

(10) Accountants & Auditors:

Bullen & Slinkard
815 Third Avenue
Suite 301
Chula Vista, California 92010
(714) 422-6181
William C. Slinkard (all Project:

BONITA PLAZA SHOPPING CENTER

1. General:

The May Shopping Centers, Inc., the City of National City and the Parking Authority of the City of National City are now pursuing this Project as a private project with some assistance from the City and the Parking Authority. The Project is located in the southeast quadrant of the intersection of Interstate Highway 805 and State Highway 54 in southeast National City.

The May Company has purchased the 16 acre building envelope for the Center and the City and the Parking Authority have purchased the balance of the Project land, about 100 acres, consisting of about 50 acres for drainage and open space and about 50 acres for public parking facilities.

Proposed:	Sq. Ft.
May Company	250,000
Department Store	130,000
Department Store	125,000
Junior Department Store	80,000
	585,000
Stores and Shops	215,000
	800,000

The cost of the buildings will be about $40 million and the value of the taxable fixtures, equipment and inventory will be about $20 million.

2. Estimated Revenues to City:

The net sales tax increase to the City of National City in the first year of operation of Bonita Plaza Shopping Center is estimated at $765,330

and the increased property tax to the City in the first year is estimated at $189,000 for a total of $954,000. See the accompanying "Smith Report", pg. 15. After deducting one half of the sales tax revenue or $382,665 for parking facility lease-revenue bond retirement, the annual increased tax revenue available to the City will be $571,665. By 1989-1990 the total net increase in tax revenue to the City will be $1,039,155. (Smith Report, page 15)

The City's costs for fire, police, street maintenance and administrative overhead will probably not exceed $200,000 leaving a net, net increase in tax revenue to the City of $371,665 in the first year and of $839,155 in the tenth year after opening. (Smith Report, page 15)

3. Increased Employment:

Construction employment during the 12 to 14 month construction period for the center will involve a payroll of about $20 million for the Center buildings and parking facilities and $5 million for the offsite improvements. This assumes a construction cost of $40 million for the Center (800,000 sq. ft. at $50 per sq. ft.) and $10 million for grading and offsite improvements and assumes that one half of the total cost is labor. This $25 million dollar payroll is a construction payroll.

Permanent jobs at the Shopping Center would number about 1,400 based on 577 sq. ft. per employee for the 800,000 sq. ft. The 577 sq. ft. factor is based on a State Division of Highways study of 9 shopping centers in the San Diego area and is reported at page 139 of the accompanying "Menard Report". Also see the letter from May Company attached hereto. The 50% of construction cost as labor is also reported at page 139 of the Menard Report.

National City has substantially more latino and black persons than San Diego County in general (28% to 9%). See page 9 of accompanying "Gobar Report".

Only 5.9% of National City employed persons are employed in sales whereas 8.8% are employed in sales on a County wide basis. (Gobar Report, page 11) Besides reducing unemployment in National City the Bonita Plaza Shopping Center would fill a void in South Bay's retail sector and create a force to support many other types of outlets which, in turn, will create additional employment and additional sales tax and property tax revenue to the City. (Gobar Report, page 3)

4. Access by National City People to Competitive Retail Shopping Facilities

National City, with its disproportionately large percentage of minority people, older people and lower income people compared with the County of San Diego in general has acute public transportation needs, including access to competitive shopping facilities.

The Bonita Plaza Shopping Center would be much closer to National City residents than the existing shopping centers in Chula Vista and Mission Valley and other locations within the County. (Drawings in front of pages 1 and 5 of Smith Report and Drawing at page 120 of Menard Report) The distance of existing shopping centers leaves seniors and lower income persons in National City, particularly those who don't have cars or who can't drive, at a particular disadvantage in access to competitive shopping facilities. Adequate bus service to the nearby Bonita Plaza Shopping Center will aid these people and other National City people considerably.

Conclusion:

The Projects and Programs of the Community Development Commission of the City of National City have a very important impact upon the City of National City and its residents in terms of the following:

(1) New jobs, estimated at 2,500 for all Projects and Programs.

(2) New property tax revenues, estimated at $189,000 per year for the Bonita Plaza Shopping Center. (Increased property tax revenues in the E. J. Christman Project, the South Bay Town & Country Project and the Center City Project are allocated to the Community Development Commission for reinvestment in the Projects or for debt retirement).

(3) New sales tax revenues. $371,665 for the Bonita Plaza Shopping Center in the first year and a current estimated $300,000 per year from the E. J. Christman Project portion of the "Mile of Cars" and from the South Bay Town & Country Project.

(4) Housing Assistance Payments. (400 units) $2,400,000 over 5 years City wide. (Section 8 Existing Housing)

(5) Housing Assistance Payments, new 151 units Senior's Housing, $15,000,000 for low and moderate income handicapped and elderly persons over 40 year contract period, expressed in current dollars. Section 8, New Construction.

(6) These Housing Assistance Payments will increase sales tax revenue because funds not used by persons for housing will in part be used for local retail purchases. Sales tax revenue will also increase because of incomes of that portion of the 2,000 new jobs held by persons residing in National City.

"WEST SIDE"

The West Side, a primarily Mexican American residential area, is generally bounded by Ninth Street on the North, 22nd Street on the South, National Avenue on the East and Interstate Highway 5 on the West.

This area is within the Community Development Commission's Housing Assistance Area. This Program of low interest, (3-3/4%) long term (15 years) home improvement loans (maximum amount $10,000) and HUD Section 312 Loans, (3%, 20 years, maximum amount $17,400) has resulted to date in 31 loans totalling $187,250. West Side owners have received $113,150 of these funds. (See accompanying tabulation.) This is 60% of these funds.

The Community Development Commission has rental assistance payments contracts out on 200 of its 400 units, City wide. West Side residents presently receive $1,149 per month under 10 different contracts. $1,149 X 12 months = $13,788 per year X 5 years = $68,940 X 2 (200 more units yet to go) = $137,880 direct benefit to West Side residents. (Source Community Development Commission records)

The 151 unit Housing Facility, now out to bid, will be of direct benefit to some West Side elderly and handicapped persons of low and moderate income.

The City's 1976 improvement of Casa de Salud located within the West Side cost $ 43,400 and was of direct benefit to West Side residents.

The City's current redesign and improvement of Kimball Park will be of direct benefit to West Side residents. This is an $800,000 project over the next five years.

The City's Kimball School Mini Park at 19th and Hoover Avenue within the West Side will be of direct benefit to West Side residents. This Park will cost $45,000 and is currently in progress.

The City's recently completed $3.9 million sewerline reconstruction project and related $.3 million street repaving included the West Side and is of direct benefit to West Side owners and residents. This work done with a U. S. Economic Development Act Grant would have cost $30 per unit per month if it had been funded by a bond issue.

The above are evidences of City of National City and its Community Development Commission's actions to provide for the housing, recreation and public facilities needs of the West Side residents.

USE OF REVENUE SHARING FUNDS

The Parking Authority of the City of National City has requested $48,000 to pay one years interest on its Note for the purchase of 45 acres open space abutting the Bonita Plaza Shopping Center for $800,000 and has requested $200,000 to pay on the principal, or $248,000.

The Parking Authority has requested an unspecified additional amount of Revenue Sharing funds to pay toward its $1,000,000 obligation to provide off-site improvements in connection with the Center.

The Community Development Commission of the City of National City has requested Revenue Sharing Funds as follows:

(1)	Public works in connection with the 300 unit Seniors Housing Area	$250,000
(2)	Seniors Housing Kitchen and dining equipment	25,000
(3)	National Avenue - Highland Avenue Redevelopment Survey and Planning	75,000
		$350,000

These requests, copy attached, are for $598,000 plus any funds available for Bonita Plaza off-site improvement design and construction.

The use of these funds for the above purposes is entirely consistent with the City's Plans, Projects and Programs. The City's strategy of re-investment in order to aid the re-establishment of the economic base and for the provision and improvement of housing for elderly and handicapped persons, and persons of low and moderate income, as evidenced above, is a sound and balanced policy.

Arnold A. Peterson, Executive Director
Community Development Commission of the
City of National City, California

CITY OF LA MESA

April 12, 1978

Blue Ribbon Commission
Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, CA 92101

Gentlemen:

The La Mesa Community Redevelopment Agency submits the following comments concerning the impact of the Jarvis-Gann Initiative on our jurisdiction.

ASSUMPTION: That Jarvis-Gann is approved by the voters and takes full effect as scheduled on July 1, 1978

First Area of Concern:

In January 1977, the La Mesa Community Redevelopment Agency issued a two million dollar bond sale under very favorable conditions and for a very viable project. Unless relief through the courts or from the State of California or other jurisdictions is provided, the La Mesa Community Redevelopment Agency will be unable to service its bonded indebtedness. We have been informed by our Financial Consultants, Blyth, Eastman & Dillon of San Francisco, that if Jarvis-Gann takes effect as described above, the La Mesa Community Redevelopment Agency's two million dollar bond issue will be in default within three years, because sufficient property tax increment revenues will not be available to service the bonded indebtedness.

Second Area of Concern:

One of the unique features providing for the success of redevelopment has been its method of financing - i.e. collecting tax increments and servicing bonded indebtedness. Jarvis-Gann not only impairs our ability to pay previous bonded indebtedness, it also totally eliminates the Agency's ability to fund future projects in the expectation of using this method of financing.

Third Area of Concern:

To enable the Agency to initiate and continue the redevelopment process in La Mesa, "seed money loans" have been provided by the City of La Mesa with repayment occurring from the proceeds of bond sales, such as the one indicated in the first area of concern.

With the impingement occurring within the City budget as a result of Jarvis-Gann, it is very problematical whether there will be any funds available to the City to make these loans.

Sincerely,

LA MESA COMMUNITY REDEVELOPMENT AGENCY

Paul W. Fordem

Paul W. Fordem, Chairman

MiraCosta College
One Barnard Dr., Oceanside, Calif. 92054. Tel. (714) 757-2121

April 12, 1978

Lucille V. Moore, Chairwoman
Board of Supervisors
1600 Pacific Highway
San Diego, CA 92101

Dear Mrs. Moore:

Thank you for this opportunity to comment on the implications of the Jarvis/Gann initiative as it affects MiraCosta College. Short of the defeat of the initiative, nothing I know of could be more beneficial to the schools in this county than for the Board of Supervisors to reveal its plan for distribution of funds should the initiative pass. As it is, alternative budgets are meaningless exercises and a waste of public funds.

A chief objection to the initiative must be that it is so unspecific as to raise more questions than it answers, and it leaves us without any kind of foundation for planning the year which follows the election by only three weeks. Should the initiative pass, we at MiraCosta face a loss of somewhere between $4.4 million and $7.2 million out of a $12 million budget! That range depends on how Supervisors decided to divide the money and they haven't said although I have been informed that the Chief Administrative officer of the Board of Supervisors has recommended that all special districts be funded before considering school needs.

Not True

We must also operate within an environment in which the state legislature has failed to reveal any firm position on the replacement of funds it may choose to make available, so we must assume there will be no replacement funds at least for the first year. If the initiative carries and subsequent public demand achieves funds replacement by the legislature, it seems unlikely that the state surplus could last more than one year. After that, subventions would necessarily come from some other state taxes and all of us, I think, have learned that state subventions not only bring more state control but funding at higher cost because of paper reports, audits, etc., invariably attendant upon state largesse.

Because we have been accruing funds for a vigorous construction program, MiraCosta is in the fortunate position of being able to survive one year if Supervisors decide to apportion its funds according to a status quo formula. However, if the Supervisors' formula causes us to experience the $7.2 million cut, we do not see how the institution can operate until the end of the academic year. Also, if the Supervisors effect only the status quo cut, and no replacement funds are forthcoming from the state, we are likewise facing financial demise.

MiraCosta is developing contingency plans to be implemented if the Jarvis/Gann initiative carries. However, such plans are necessarily philosophical since there is no way to develop a line item budget without knowing which option the Supervisors will choose.

Sincerely,

John MacDonald

John MacDonald
Superintendent/President

CITY OF OCEANSIDE

MAYOR
PAUL G. GRAHAM

COUNCIL MEMBERS
DOUGLAS M. AVIS
LUCY R. CHAVEZ
WILLIAM D. BELL
JOHN C. CASEY

April 12, 1978

Blue Ribbon Commission
c/o Office of Management
and Budget
County Administration Center
1600 Pacific Highway
San Diego, California 92101

Gentlemen:

This letter is written in response to a request from Lucille V. Moore, Chairwoman of the Board of Supervisors, that the Oceanside Redevelopment Agency provide comments on the Jarvis-Gann Initiative.

Because Proposition 13 is subject to several interpretations, the precise impact of this measure on the financial status of the Oceanside Redevelopment Agency is subject to some conjecture. However, it appears that the implementation of the Proposition as we understand it will have an extreme negative impact on redevelopment projects.

Sincerely,

Paul Graham

Paul G. Graham
Mayor

MLW:fj

SANTEE SCHOOL DISTRICT
P. O. BOX 220
SANTEE, CALIFORNIA

MEMORANDUM

TO: Blue Ribbon Commission DATE: April 12, 1978

FROM: Douglas E. Giles, Superintendent

SUBJECT: Impact of Jarvis-Gann

This correspondence is being written on behalf of Santee School District and addresses the predicted impact of Jarvis-Gann on the District's income. One can only refer to a predicted impact as there are too many unanswered variables to deal with. For example, if Jarvis-Gann passes, several questions need to be answered:

1. Will the Board of Supervisors continue to allocate the local revenue to the same agencies at the same percentage rates?

2. How much of the income loss in local revenue can be made up by the State? By the Federal Government?

3. Etc.

Reasonable estimates of the immediate impact on this school district can be made if we assume that the Board of Supervisors will continue to allocate funds at the same percentage rate as is presently being done.

Attached is a copy of a statement put out by the County Department of Education projecting the impact of Jarvis-Gann on various school districts. It points out that Santee would lose $2,874,657 in income, or approximately 25.7% of its total income. In a separate study done within our district, we had predicted that the district would lose approximately $3,140,652, or 27.5% of its total income. As the County Department of Education has access to more accurate information and has the capability to analyze it in more detail, we would have to assume that their figures are perhaps more accurate. It seems reasonable to assume that Santee will lose approximately three million dollars in income. Therefore, to summarize, we get the following:

Estimated 1977-78 total income	= $11,406.152
Estimated loss in local revenue if Jarvis-Gann passes	= $ 3,000,000
Adjusted total income	= $ 8,406,152
Percentage loss due to Jarvis-Gann	= 26.6%

As is the case in all school districts, an extremely large percentage of income goes to employee salaries and benefits. In Santee, approximately 85% of our total budget goes into these categories. The remaining 15% is used for supplies, maintenance, utilities, etc., most of which are fixed costs. Therefore, when a school district looks at alternatives for reducing expenditures of the magnitude we are considering, and

keeping in mind that approximately 85% of the expenditures are for salaries and benefits for employees, it quickly becomes apparent that a cutback in the number of employees will be necessary. How many of these employees will be teachers, administrators, or classified employees is yet to be determined.

Regardless of how the final cutbacks will be made, there is little doubt that at least two things will happen for sure:

1. Several employees will have to be released.

2. Class sizes will increase dramatically.

3. Services, such as transportation, will be reduced or eliminated.

If the committee would like any more input from our district, please feel free to contact us. I hope that the above information will be helpful to you.

Message from the Superintendent

Losses for School Districts Estimated, Should Proposition 13 Pass


Dixon

The following study of the potential financial impact on local school districts if Proposition 13 (Jarvis-Gann) passes June 6 is presented as a matter of information.

Proposition 13, if approved, would require the Board of Supervisors to collect all local taxes and apportion them "according to law." This differs from present practice in which local districts are able to raise funds from local taxes and state funds, up to a pre-determined per pupil maximum.

The amount of revenue loss for each school district, with an estimated percentage of total income lost, is reported below. In the column of figures, the loss to individual districts is identified in terms of property tax revenue being apportioned to school districts by the County Board of Supervisors in the same proportion as those districts raised by themselves last year. These figures are estimates based on a study completed by the business services division of the Department of Education, San Diego County, in its response to requests from local districts for information concerning budget preparation for the 1978-79 school year. The study is based on assumptions made by the department's business services division.

Local Districts	1978-79 Revenue Loss If Reduction Is Proportionate: Revenue Reduction	% of 77-78 Total Income
Alpine Union	463.539	33 9
Bonsall Union	314.141	40.5
Cajon Valley Union	5.869.035	28 5
Cardiff	827.730	53.5
Chula Vista City	6.743.530	25.3
Dehesa	60.895	38 0
Del Mar Union	1.448.973	58 8
Encinitas Union	2.673.092	53.2
Escondido Union	5.092.216	31.7
Fallbrook Union	2.591.761	45 1
Jamul-Las Flores Union	264.667	27.6
Julian Union	157.449	33.0
Lakeside Union	1.766.683	30 9
La Mesa-Spring Valley	6.383.154	33 0
Lemon Grove	1.408.633	26 7
National	1.678.005	18 9
Pauma	167 839	39 9
Rancho Santa Fe	210.373	26 2
San Pasqual Union	60.012	36 5
San Ysidro	603.204	10 7
Santee	2.874.657	25 7
Solana Beach	1.173.205	52 3
South Bay Union	2.020.837	18 5
Spencer Valley	17.267	33 4
Vallecitos	91.664	46 8
Valley Center Union	603.513	38 4
Warner Union	48.800	17.2

Local Districts	1978-79 Revenue Loss If Reduction Is Proportionate: Revenue Reduction	% of 77-78 Total Income
Borrego Springs Unified	251.618	31.5
Carlsbad Unified	3.287.453	40.1
Coronado Unified	1.284.732	27 1
Mt. Empire Unified	694.855	35.6
Oceanside Unified	4.480.738	21.7
Poway Unified	6.459.190	30 8
Ramona Unified	2.287.494	41.7
San Diego Unified	71.363.332	33 7
San Marcos Unified	3.142.424	47.3
Vista Unified	5.434.338	33 2
Escondido Union High	4.532.847	42 4
Fallbrook Union High	1.903.908	45 6
Grossmont Union High	17 420 598	36 8
Julian Union High	166 380	25 5
San Dieguito Union High	4 243 602	50 3
Sweetwater Union High	6.894 749	18 1
Grossmont Community College	5 576 797	28 2
MiraCosta Community College	4 403 846	39 1
Palomar Community College	5.230 541	24 9
San Diego Community College	7 947.848	15 1
Sweetwater Community College	1.952.298	16 0
County Department of Education	9.000.000	37 0

School districts in San Diego County could lose as much as $205 million in operating revenue for 1978-79 should Proposition 13 (Jarvis-Gann) be approved by California voters June 6. At this time no provision for alternate funding of schools, should Proposition 13 pass, exists.

M.T.D.

EDUCATION SAN DIEGO COUNTY

Published monthly during the school year by the Department of Education, San Diego County, 6401 Linda Vista Road, San Diego, California 92111. (714) 292-3500, and distributed to school personnel, school board members, PTA presidents, colleges and news media in San Diego County.

Superintendent of Schools
M. Ted Dixon
Editor
Gary Hoban
Photographer
Elbert Seal

SDSU Establishes Theatre Arts Academy

San Diego State University is establishing a new academy of theatre arts. The academy will provide professional training opportunities for students preparing for careers in acting, directing, or technical theatre.

Appointed director of the academy is **Paul Gregory,** a stage, screen, and television producer. Among Gregory's credits are *The Night of the Hunter, Naked and the Dead, The Caine Mutiny Court Martial,* and *The Day Lincoln was Shot.*



"We could have done without April showers this year."

Coming Events

April
- 1-30 National VD Awareness Month
- 1-30 Public Schools Month
- 2-8 Week of the Young Child
- 2-8 National Library Week
- 4 Expanding Children's Experiences Through ECE 4-6:30 p.m., Marcy Elementary School
- 4 Creative Problem Solving Demonstrations, 8 30 a.m -12 noon, Hardy Elementary School
- 5 Project Prepare Workshop, 8 a.m.-5 p.m., department of education
- 5 AV Workshop, 8 30 a.m -12 noon, department of education
- 6-9 California Speech and Hearing Association annual conference, Town and Country Hotel, San Diego
- 7 Structure of Intellect Workshop, 9 a.m -3 30 p.m and 7-9 p.m., Chula Vista District Office
- 7 Professional Growth Day for Librarians, 9 a.m -5 p.m., department of education
- 7-8 California Schools Boards Association—Regional Conference, San Diego
- 7-9 Cum Laude Society, Asilomar Conference Grounds
- 8 Structure of Intellect Workshop, 9 a.m -12 noon Chula Vista District Office
- 10-13 Cooperative Education Association and California Cooperative Education Association Conference Hilton Hotel, San Francisco
- 11-18 Camp Fire Girls Birthday Week
- 11-14 California Association of School Business Officials Convention Center, Fresno
- 12 City-County Music Workshop, 2-5 30 p.m., department of education
- 12-15 National Council of Teachers of Math Convention Center, San Diego
- 20-23 Greater San Diego Science and Engineering Fair Federal Building Balboa Park San Diego
- 22 Project Hope Workshop 8 a.m -5 p.m., department of education
- 23-27 American Institute of Aeronautics and Astronautics San Diego
- 23-29 National Secretaries Week
- 24-29 Public Schools Week
- 25-26 Preschool/Primary Articulation Conference, 8 a.m -5 p.m., department of education

May
- 1-31 Migrant Education Month
- 1-5 Law Week
- 1-7 Mexican American Week
- 1-7 Be Kind to Animals Week
- 1-7 National Music Week
- 2 Spelling Bee (Countywide Finals), department of education
- 2 Expanding Children's Experiences Through ECE, 4-6 30 p.m., Park Dale Lane Elementary School
- 2-5 California Congress of Parents and Teachers, Community Concourse, Fresno
- 3 Project Prepare Workshop, 8 a.m -5 p.m department of education
- 5 CEC Film Festival 8 a.m -10 p.m., department of education
- 9-15 Foot Health Week
- 11-12 California Association Supervisors of Child Welfare and Attendance, Sacramento
- 11-13 American Academy for Cerebral Palsy—Western Continuing Education Course, Vacation Village, San Diego

CORONADO UNIFIED SCHOOL DISTRICT
SUPERINTENDENT'S OFFICE • 706 SIXTH STREET • CORONADO, CALIFORNIA 92118 • (714) 435-3148

April 13, 1978

Blue Ribbon Commission
c/o Office of Management
and Budget
County Administration Center
1600 Pacific Highway
San Diego, California 92101

Dear Sirs,

The rising costs of all units of government must be controlled and taxes must be reduced, all will agree. The measures required to effect the needed economies must be prudently planned and implemented on a short and long term basis so that the existence and efficiency of the needed tax-supported agencies will not be adversely affected. Additionally, a thorough examination must be made to see that the hardest pressed tax payers receive the greatest share of the savings.

In our opinion, the Jarvis/Gann Initiative, Proposition 13, does not safeguard the effective continuance of services nor does it provide for a fair distribution of the savings it is designed to yield. We foresee a dismantling and disabling of a good public schools system in Coronado.

It is calculated that our district will lose 30% of its revenue should Proposition 13 pass. The impact of such a loss without replacement by another level of government would necessitate deep cuts in services and materials which would seriously affect the overall educational program and our buildings. We would survive the first year under austerity conditions. Beyond that point, with the reserves depleted, we could not effectively operate within the requirements of the educational code.

If additional funding from the State is not received, Proposition 13 will bring about an erosion of the public schools system to a point that recovery will be far more costly than the purported savings gained by the Jarvis/Gann Initiative. The children and the tax payers of California cannot afford the risks and the costs involved.

The average tax payer has frequently been the victim of legislation written to favor business and industry. He has helplessly objected to circumstances which allow the wealthy to pay lower taxes proportionately and numerically than others. Proposition 13 is another flagrant example of such one-sided legislation.

Proposition 8, and SB 1 (Behr), in contrast to the Jarvis measure, provide for a significant reduction (30%) in property taxes for those who need the most relief: home-owners and renters. Further, the measures provide for replacement monies without causing an increase in other taxes. Lastly and most important is the fact that programs and services will not be adversely affected.

It is for these reasons that we urge the defeat of Proposition 13 and the passage of Proposition 8.

Very truly yours,

William A. Kinzler

William A. Kinzler
Superintendent of Schools

Julian Union High School
Post Office Box 417
Julian, California 92036

April 13, 1978

Blue Ribbon Commission
c/o Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, CA 92101

Gentlemen:

This letter is in response to a letter from Lucille V. Moore, dated April 3, concerning the Blue Ribbon Commission.

Only a very inadequate analysis of the Jarvis/Gann tax initiative effect is possible. There is no information on S.B. 65 in relation to Jarvis/Gann, no alternative State support mentioned. In light of so minimal information, we can only estimate that a 60% reduction in secured tax receipts would cause a 33% cut in our operational budget.

Should we lose all secured tax receipts with no income alternatives, the following services would be deleted--library, cafeteria service, the athletic program except that mandated, pupil transportation, driver training, counseling services, nurse's service and all capital outlay.

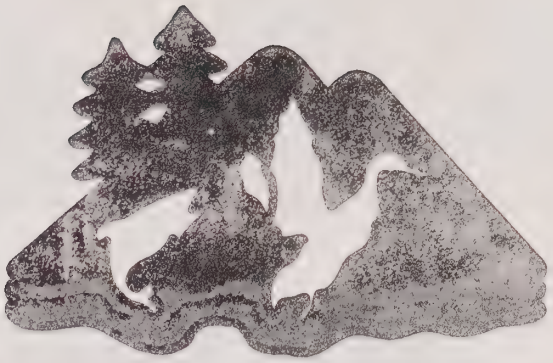
Personnel would need to be reduced by at least 50% and only a bare-bone instructional program could be offered.

School districts will suffer greatly throughout the State if the Jarvis/Gann initiative passes. Since the school districts in San Diego County will be affected by this initiative, I feel that they should be represented on the Blue Ribbon Commission.

Sincerely,

Nolan R. Wynn
District Superintendent

NRW:mp



Lake Cuyamaca RECREATION AND PARK DISTRICT

April 13, 1978

Blue Ribbon Commission
c/o Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, CA 92101

Gentlemen:

The Lake Cuyamaca Recreation and Park District has traditionally relied primarily upon user fees for the bulk of its revenue. For the current fiscal year only 4% of projected revenues will be derived from property taxes.

It is our belief that the Jarvis/Gann Initiative will have a minimal effect on our District. No curtailing of services, nor of employment, is anticipated. As is obvious, rising costs of operation could make an increase in user fees necessary; however, no increase is planned at this time that would be the direct result of Proposition 13.

If you require further information, please contact our office.

Sincerely yours,

LAKE CUYAMACA RECREATION AND PARK DISTRICT

Marilyn B. Bryan

Marilyn B. Bryan
Office Manager

mb

CITY OF OCEANSIDE

CITY MANAGER
DANIEL E. STONE

April 13, 1978

Blue Ribbon Commission
c/o Office of Management and Budget
County Administration Center
1600 Pacific Highway
San Diego, CA 92101

Gentlemen:

A task force established by the City Manager for the City of Oceanside has analyzed the possible effects of Proposition 13 on the City of Oceanside. Because of several ambiguities of statements used in the drafting; i.e., "district," "qualified voter," etc., it is difficult to determine the total effects upon the City of Oceanside's operation for the upcoming fiscal year.

Assuming the narrowest interpretation of Jarvis, the City would lose approximately 3.2 million dollars in revenue. Cities would be classified as special districts and thus entitled to 40 percent of the revenue. Special revenues in effect such as business licenses and hotel/motel tax would not have to go back for a vote of the people. On the other hand, if cities are not determined to be districts and if we must go to the people for a vote to approve special revenue sources (including business licenses, hotel/motel tax, and franchise taxes), the loss to the city would be in excess of five million dollars.

There have been no determinations at this time as to how the above-mentioned losses would be compensated; such as program cuts, delays in capital outlay, etc. Such determinations will only be made after June 6, and then only if Proposition 13 is approved by the voters.

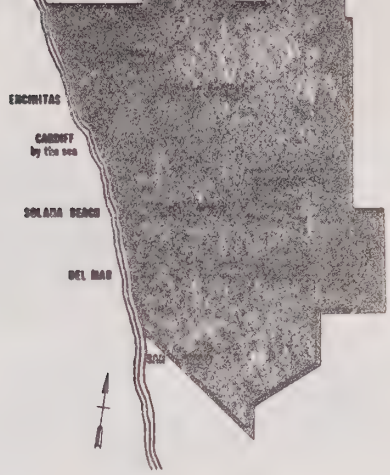
If our city can be of any further assistance to your commission, please feel free to contact us.

Sincerely,

Robert S. Bourcier

ROBERT S. BOURCIER
Acting City Manager

RSB:MJM:mr



SAN DIEGUITO
UNION HIGH SCHOOL DISTRICT

2151 NEWCASTLE, CARDIFF, CALIFORNIA 92007 • 714-753-6491

April 18, 1978

Mrs. Lucille V. Moore, Chairwoman
Board of Supervisors
County of San Diego
1600 Pacific Highway
San Diego, California 92101

Re: Blue Ribbon Commission/Jarvis-Gann Initiative

Dear Ms. Moore:

I am in receipt of your recent letter calling attention to the establishment of a Blue Ribbon Commission to evaluate the impact of the Jarvis-Gann Initiative on San Diego County. Your proposal was brought before the Board of Trustees of the San Dieguito Union High School District at its Regular Meeting on April 13 for review and comment. While the Board supports the basic concept and purpose of the Commission, it did express concern over the absence of representatives who might be familiar with the initiative's purported impact on public schools.

The San Dieguito High School District has been advised by the County Department of Education that its income from the property tax would be reduced significantly if the initiative is successful. Total income is estimated to be approximately one half of what would otherwise be permissible under current law. This has led to the development of contingency plans for the reduction in services that has resulted in elimination of staff. It is the Board's sincere hope that the impact of the passage of the Jarvis-Gann Initiative on public schools will be given careful consideration by the Commission.

Sincerely,

William A. Berrier

William A. Berrier
Superintendent

bfs

BOARD OF TRUSTEES: David H. Thompson, President; William F. Howell, Vice President; Ann P. Sensibaugh, Clerk; Don W. Mitchell; R. Garry Shirts

ADMINISTRATION: William A. Berrier, Superintendent; Robert A. Morton, Assistant Superintendent; John J. Daily, Business Manager

Suite 601
Spreckels Building
121 Broadway
San Diego, California 92101
714/231-2430

Centre City Development Corporation

Dean R. Dunphy
PRESIDENT
Gerald M. Trimble
EXECUTIVE VICE PRESIDENT
Lucille F. Mortimer
SECRETARY
Kenneth Rearwin
TREASURER

Herbert Kunzel
Jack H. McDonald
Peter Davis

April 19, 1978

Mrs. Lucille V. Moore
Chairwoman
Board of Supervisors
County of San Diego
1600 Pacific Highway
San Diego, CA 92101

Your letter of March 29, 1978 to the San Diego Redevelopment Agency has been referred to me for a response. The Corporation and our legal counsel have spent considerable time in analyzing the impact of the Jarvis-Gann Initiative on redevelopment in downtown San Diego. Passage of the Jarvis-Gann Initiative would have a very serious economic effect on the program that is currently being implemented in Centre City.

Tax increment financing, established by constitutional revision in the State of California in 1952, is an economically viable method of financing the restoration of our central areas. Many analyses have been done in comparing the cost to the public of financing redevelopment activities locally or through the use of federal funds. It has been proven repeatedly that local financing techniques are more cost effective, keep control at the local level and produce results in a much shorter timeframe.

Attached is an analysis of the specific impact on redevelopment in Centre City if the Jarvis-Gann measure on the June 6, 1978 election passes. As you can see, the results would be very serious. The specific development projects that have been established as priorities in Centre City would most probably have to be funded in another manner, if one exists.

The Centre City Development Corporation has not taken an official position on the Jarvis-Gann Initiative. It is obvious, however, because of the impact on our program, that the Corporation's position would most probably not be in favor of the measure.

I would be very happy to appear before your Blue Ribbon Commission and comment on the specific impact on redevelopment of the Jarvis-Gann Initiative.

GERALD M. TRIMBLE
Executive Vice President

Dean Dunphy
John Fowler

John Gray & Associates

PUBLIC AGENCY ADMINISTRATION | FISCAL PLANNING AND ANALYSIS | TAX INCREMENT FINANCING

April 13, 1978

CENTRE CITY
DEVELOPMENT
CORPORATION

1978

Orig. To: GT

Copy To:

Mr. Gerald M. Trimble
Executive Vice President
Centre City Development Corporation
Suite 601
Spreckles Building
121 Broadway
San Diego, CA 92101

Re: Jarvis-Gann Tax Initiative

Dear Mr. Trimble:

Pursuant to your request and in conjunction with Agency Counsels Office, we have examined the impact of the Jarvis-Gann Initiative (Proposition 13) on the Horton Plaza outstanding tax allocation bond issue and the future ability of the Marina and Columbia Projects to support issuance of Tax Allocation Bonds.

As you are aware, the maximum annual debt service and retirement from tax revenues relating to the Horton Plaza $11,000,000 Tax Allocation bonds for 1978 is $887,915. The 1977-78 incremental assessed value increase as reported by the San Diego County Auditor-Controller is $12,244,929. The 1977-78 combined tax rate applicable to the project is $8.674 per $100 of assessed value. Tax increment revenues for 1977-78 are then anticipated in the amount of $1,062,000 which is approximately 128% of required debt service.

Assuming non-passage of Jarvis-Gann and that 1978-79 values increase approximately 12% due to full assessment of the Federal Office Building, new construction, inflation; the incremental assessed value would increase to $13,714,320. Assuming also a 1977-78 tax rate of $8.674 per $100 of assessed value the tax increment revenues would be $1,189,580 or approximately 143% of debt service.

If on the other hand, Jarvis-Gann is approved, the tax revenues for 1978-79 would be reduced by 54% diminishing tax revenues to approximately $547,000 leaving a deficit balance for debt service on the outstanding bond issue of $341,000. Given these circumstances with no alternative funding sources, the bonds would default.

1127 ROOSEVELT BUILDING | 727 WEST SEVENTH STREET | LOS ANGELES, CALIFORNIA 90017 | (213) 489-4628

Issuance of future Horton Project tax allocation or lease revenue bonds dependent on the security of tax increment revenues would obviously be impaired. Under Jarvis-Gann all taxable property in the project would be subject to the combined tax levy of $4.00 per $100 of assessed value (1% of taxable market value) which would require $34,100,000 of additional market value to simply meet debt service on the present outstanding Horton Plaza bond issue.

Under the foregoing Jarvis-Gann assumptions, the Marina Redevelopment Project would be unable to support the pending $3,500,000 Tax Allocation Bonds, Series A. The estimated annual debt service schedule for 1979 thru 1983 is $245,000 for interest only, with the first principal payment due in 1984. The estimated maximum total debt service occurs in 1986 in the amount of $332,750. We are currently projecting an annual $350,000 tax increment revenue flow by 1980-81.

The Jarvis-Gann initiative would reduce these tax revenues to approximately $161,000 leaving a deficit balance for maximum annual debt on the pending bond issue of approximately $172,000. This amount again equates to approximately $17,200,000 of new market value construction. For example, it would require 313 of the Agency's projected housing units at $55,000 per unit to reach the above market value.

Issuance of additional bonds to meet public costs for the housing and Hotel/Commercial developments within the project would obviously be severely curtailed.

The Columbia Redevelopment Project has a 1977-78 tax increment revenue flow of $119,000 which could be reduced by Jarvis-Gann to approximately $55,000 in 1978-79 assuming a constant 1977-78 assessed value. The Agency's proposed major land use in this project i.e. the Convention Center with supporting Hotel/Commercial development would create significant new market values. The proposed 2% increase of the City's Transient Occupancy Tax estimated to generate $2,600,000 in annual revenues would partially mitigate the impact of Jarvis-Gann.

The bonding capacity of the $2,600,000 annual revenue assuming 30 years, 7% at 1:1 coverage would be $32,260,000. The Agency's attendant public costs reflected in the proposed issuance of $98,500,000 lease revenue bonds would require an additional $66,200,000 or approximately $5,300,000 of annual revenues from tax increments and/or other sources. We are not aware of the total projected market value of the Columbia Project proposed developments, however, $530,000,000 of new market value would be necessary to generate the additional annual revenue.

If you have any additional questions or need clarification of the above, please notify our office.

Sincerely,

Gary G. Jones
Associate

cc: Bruce Ballmer

CITY OF VISTA
INCORPORATED JANUARY 29, 1963

PHONE 726-1340
P. O. BOX 188 • 200 W. BROADWAY • VISTA, CALIFORNIA 92083

April 21, 1978

Blue Ribbon Commission
c/o Office of Management & Budget
County Administration Center
1600 Pacific Highway
San Diego, California 92101

Gentlemen:

Enclosed herewith is a copy of the Minutes of the regular meeting of the Board of Directors of the Vista Sanitation District held on April 5, 1978, and a copy of an adjourned regular meeting of the City Council same date meeting jointly with the Board of Trustees of the Vista Unified School District to discuss mutual impacts of the Jarvis-Gann Initiative.

It was the recommendation of the Board of the Vista Sanitation District that a copy of the minutes of the two meetings be forwarded to the San Diego County Board of Supervisors and to the Blue Ribbon Commission for inspection.

Very truly yours,

Jean Brooks O'Brien

(Mrs.) Jean Brooks O'Brien
City Clerk

JBO:rmy

cc: Lucille V. Moore, Chairwoman
San Diego County
Board of Supervisors
1600 Pacific Highway
San Diego, Ca. 92101

NOT OFFICIAL UNTIL APPROVED AT
SUBSEQUENT MEETING OF THE VISTA
SANITATION DISTRICT

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS
OF THE VISTA SANITATION DISTRICT HELD ON WEDNESDAY, APRIL 5,
1978, 175 NORTH MELROSE DRIVE, VISTA, CALIFORNIA

The Board of Directors of the Vista Sanitation District regular meeting was called to order at 7:00 P.M. by Chairman Rappaport on Wednesday, April 5, 1978, at the Headquarters Fire Station, 175 North Melrose Drive.

ROLL CALL: Present: Directors: Rappaport, McClellan, Tracy, Carr and von Haden

Also present:
Manager - Joseph J. Zapotocky
General Counsel - Gloria S. McLean
Director of Public Works - Donald D. Todd
Operations Engineer - Wayne Elliott
Clerk - Jean Brooks O'Brien

There being a quorum present, the meeting was in order.

APPROVAL OF MINUTES:

Minutes of the regular meeting of March 1, 1978, were approved as corrected on Page 2, Paragraph 2, Line 1, the word "Council" changed to "Board".

APPROVAL OF AGENDA:

By common consent of the Board, the following item was added to the agenda:

I. NEW BUSINESS - (c) Resolution requesting that the City of Carlsbad adopt an ordinance establishing rules and regulations for the discharge of septic tank and chemical toilet wastes at the Encina Water Pollution Control Facility.

SUBMISSION OF CLAIMS:

38- General Fund (100100) Services to District for the 9th period: 2-4-78 to 3-3-78 (Fund 3097-00) $10,434.63

Motion was made by Director McClellan, seconded by Director Carr, that the claim be approved in the total sum of $10,434.63; that the Chairman be authorized to sign the claim and the County Auditor and Controller directed to draw a warrant in the above amount; and for the County Treasurer to pay the same, and the motion carried by the following vote:

Ayes: Directors: Carr, McClellan, Tracy, von Haden and Rappaport
Noes: Directors: None
Absent: Directors: None

UNFINISHED BUSINESS:

32- Report on Sewer Treatment Capacity of Vista Sanitation District (Continued from meeting of 3/1/78 and Manager directed to obtain legal advice regarding Mr. Kubota's suggestion and report on a further proposal).

The Manager requested time to work with legal Counsel as to the legality of accepting options on sewer connections and would have a report at the May 3, 1978, meeting of the Board.

Director McClellan moved to continue to the next regular meeting. The motion was seconded by Director Tracy and carried unanimously.

59- Request to Install three private house sewers (laterals), Assessor's Parcels Nos. 163-220-36, 37 & 38 (Eusebia A. Alvarez and Pauline E. Snyder, Broker).

The Manager explained this matter was continued from the March 1, 1978, meeting at the request of Mr. Tiesen, Attorney for Mr. James Sherrill. The Operations Engineer said he has had no discussion with either Mrs. Snyder or Attorney Tiesen since the March meeting.

Mrs. Snyder said her Attorney had tried to contact Mr. Tiesen, but as far as she knew, they had not met to discuss the easement rights. She said she had contacted the former owner of the Sherrill property and they advised her the easement was granted for sewer purposes; however, Mr. Sherrill does not want the easement used and the Vista Sanitation District does not recognize it as a legal easement as she was told by Mr. Elliott she could not have a public sewer.

The Operations Engineer explained that the easement is for private use, not for public use. In order for a public line to be installed, it would require granting of an easement to the Vista Sanitation District.

Mrs. Snyder said they were willing to dedicate to the Vista Sanitation District. If they could put in a public line, there would be no need for the laterals.

Chairman Rappaport pointed out that the matter before the Board was whether or not to grant three private sewer laterals.

Director McClellan moved to deny the request for three sewer laterals. The motion was seconded by Director Tracy. Mrs. Snyder asked if she was being denied both public and private sewer connection. She said if this went through the Courts and legal right to use the easement was determined, would the Vista Sanitation District grant permission for a public line and the Director of Public Works responded that it would.

The question was called for and the motion to deny the request for three sewer laterals carried with Director Carr "Abstaining" due to his not being present at the March meeting when the matter was discussed.

Mr. Frank Tiesen said he had contacted Mrs. Snyder's Attorney and they are working on a resolution of the easement problem.

42- Award of Bid - Construction of Buena Vista Creek Relief Trunk Line Sewer.

Director Tracy moved to award the bid to Buse & Henson Construction Company in the amount of $572,804.00 as the lowest responsible bid, reject all other bids, and authorize the Chairman to execute the Agreement. The motion was seconded by Director McClellan and carried unanimously.

42- Agreement VSD 107-P-78 - Agreement for Engineering Services for South Santa Fe Trunk Sewer Extension - Alternate IV.

RESOLUTION NO. 78-14. ".....A RESOLUTION OF THE BOARD OF DIRECTORS OF THE VISTA SANITATION DISTRICT APPROVING AGREEMENT NO. 107-P-78: AGREEMENT FOR ENGINEERING SERVICES FOR SOUTH SANTA FE TRUNK SEWER EXTENSION - ALTERNATE IV....." Director McClellan moved to adopt Resolution No. 78-14. The motion was seconded by Chairman Rappaport and carried unanimously.

CONSENT CALENDAR:

Chairman Rappaport explained the procedure in approving the Consent Calendar and asked if any member of the Board or staff wished to remove any item for separate action.

24- "Jesse Patten Annexation" to the Vista Sanitation District.

RESOLUTION NO. 78-15. ".....A RESOLUTION OF THE BOARD OF DIRECTORS OF THE VISTA SANITATION DISTRICT ANNEXING TERRITORY TO WHICH OWNERS HAVE CONSENTED; REFERRED TO AS "JESSE PATTEN ANNEXATION" ....." Director McClellan moved to adopt Resolution No. 78-15 annexing territory to which owners have consented. The motion was seconded by Director Tracy and carried unanimously.

39- Claim against the Vista Sanitation District - H. W. Sales, 1751 Manor Drive, Vista.

Director McClellan moved to authorize payment of claim in the amount of $108.95. The motion was seconded by Director Tracy and carried unanimously.

46-96- Sewer Easement Dedication on Final Map - Vista Tract No. 77-6 - Vale Terrace Estates - C. A. Rollins.

RESOLUTION NO. 78-16. ".....A RESOLUTION OF THE VISTA SANITATION DISTRICT ACCEPTING DEDICATION OF SEWER EASEMENTS AS SHOWN ON THE FINAL MAP OF VISTA TRACT 77-6....." Director McClellan moved to adopt Resolution No. 78-16 accepting dedication of Sewer Easement. The motion was seconded by Director Tracy and carried unanimously.

46-96- Sewer Easement Dedication on Final Map - Vista Tract No. 77-2 - Extension of Sabrina Way - Assessor's Parcel No. 179-060-16.

RESOLUTION NO. 78-17. ".....A RESOLUTION OF THE VISTA SANITATION DISTRICT ACCEPTING DEDICATION OF SEWER EASEMENTS AS SHOWN ON THE FINAL MAP OF VISTA TRACT 77-2....." Director McClellan moved to adopt Resolution No. 78-17 accepting dedication of Sewer Easement. The motion was seconded by Director Tracy and carried unanimously.

46-96- Sewer Easement Dedication on Final Map - Vista Tract No. 76-11 - Palomar Development Co. - Assessor's Parcel No. 166-070-20.

RESOLUTION NO. 78-18. ".....A RESOLUTION OF THE VISTA SANITATION DISTRICT ACCEPTING DEDICATION OF SEWER EASEMENTS AS SHOWN ON THE FINAL MAP OF VISTA TRACT 76-11....." Director McClellan moved to adopt Resolution No. 78-18 accepting dedication of Sewer Easement. The motion was seconded by Director Tracy and carried unanimously.

46-96- Sewer Easement Dedication on Final Map - Vista Tract No. 77-7 - Albert & Salvatore S. Colucci - Assessor's Parcel No. 164-260-01.

RESOLUTION NO. 78-19. ".....A RESOLUTION OF THE VISTA SANITATION DISTRICT ACCEPTING DEDICATION OF SEWER EASEMENTS AS SHOWN ON THE FINAL MAP OF VISTA TRACT 77-7....." Director McClellan moved to adopt Resolution No. 78-19 accepting dedication of Sewer Easement. The motion was seconded by Director Tracy and carried unanimously.

42-77- Specifications for (a) Hydraulic Sewer Cleaner and (b) Sewer Rodding Machine.

Director McClellan moved to approve specifications and authorize advertising for bids. The motion was seconded by Director Tracy and carried unanimously.

NEW BUSINESS:

27- Representative to Joint Advisory Committee.

RESOLUTION NO. 78-20. ".....A RESOLUTION OF THE BOARD OF DIRECTORS OF THE VISTA SANITATION DISTRICT AMENDING RESOLUTION NO. 74-7 APPOINTING

NOT OFFICIAL UNTIL APPROVED
AT SUBSEQUENT MEETING OF THE
VISTA CITY COUNCIL

MINUTES OF THE VISTA CITY COUNCIL ADJOURNED REGULAR MEETING HELD ON WEDNESDAY, APRIL 5, 1978 AT 175 NORTH MELROSE DRIVE, VISTA, CALIFORNIA

The adjourned regular meeting of the Vista City Council was called to order at 8:05 P.M. by Mayor Rappaport on Wednesday, April 5, 1978, at the Headquarters Fire Station, 175 North Melrose Drive, Vista, California.

ROLL CALL: Present: Mayor Rappaport
Mayor Pro Tempore McClellan
Cmn. Carr, Tracy and von Haden

Staff present:
City Manager - Joseph J. Zapotocky
City Clerk - Jean Brooks O'Brien

There being a quorum present, the meeting was in order.

Affidavit of posting notice of the adjourned regular meeting was presented by the Clerk and the document ordered filed.

Mayor Rappaport stated the meeting was scheduled to meet jointly with the Board of Trustees of the Vista Unified School District to discuss the Jarvis-Gann initiative.

Members of the School Board attending: Farr, Minor, Hall and Student Sasway

Staff present: Dr. Jack Price, Superintendent

58- Discussion of mutual impacts of the Jarvis-Gann Initiative.

The City Manager said the joint meeting was arranged to discuss the relative impacts of Prop. 13 and how it will affect the taxpayers of the City of Vista. He said based on the best information made available to him, the City of Vista would lose approximately $700,000. It is very obvious this would mean that programs would have to be curtailed as there is no replacement revenue in sight. The City would also be forced with loss of revenue sharing monies since the distribution formula is based on the City's taxing effort. It will be necessary to reduce the work force. Any layoffs will require payment of Unemployment Insurance.

Dr. Jack Price, School Superintendent, said the School District would lose $5,400,000. He said the District receives forty-five percent of the regular budget from local taxes. This loss will also be reflected in most of the other School Districts within the County and throughout the State. Eighty percent of the budget is in personnel and according to the Education Code, teachers cannot be laid off on the basis of the anticipated loss of funds. He said it was the decision of the District to retain a quality program as long as possible. Under the new law of January 1, 1978, teachers are eligible for unemployment insurance if they don't have reasonable assurance of employment in September. The implication that schools will receive money from the State is incorrect. He said it would be impossible to operate under such a severe restriction without breaking some laws and it would be up to the Board and Administration to decide which laws it would break to provide the best possible education for the students in the District. It was the decision of this Board and other Boards throughout the County to operate a good program using prudent judgment of the budget as long as possible.

Dr. Price handed out materials - Cal-Tax analysis of the Jarvis-Gann Initiative - League of California Cities summary of pro and con arguments about Prop. 13 and a comparative summary analysis of the Jarvis-Gann Initiative and SB-1 - Editorials of the San Diego Union and La Prensa. He recommended that everyone read exactly what is said. After reading there will be questions because it is ambiguous. No one

seemed really willing to give an interpretation. He said he shared the belief of the City Manager that if the initiative passed on June 7, 1978, it would be in the Courts immediately.

The City Manager then pointed out the effects of Prop. 13, should it be passed, on the Vista Fire Protection District. The District provides with the City joint fire service. Since the District is dependent entirely on the property tax, what will happen when it loses 67% of its revenue in one year. He said adoption of this type of legislation will be further controls from the Federal layer of Government. He and Superintendent Price agreed that they had great concern of erosion of local control both in the School District and City Government.

The School District discussed some of the programs that could be eliminated such as busing for a savings of $250,000 and Adult Education for a savings of $76,000.

Cmn. von Haden said he was in favor of the intent of the Jarvis-Gann Initiative but opposed to its mechanics. He suggested that basics should be sustained and cut out non-essentials. He said it would be advantageous if all taxing districts prepared a list of essentials and non-essentials and that the Citizens Budget Review Committee consider this and decide what the Citizens feel are essential.

Mayor Rappaport said the idea that there is a pot of money that you can allocate any way you want and pick out the essentials and non-essentials is not true. He said there are certain amounts of money directed to certain programs.

Mr. Gerald Dunbar, Chairman of the Vista Fire Protection District, said the District has a Joint Powers Agreement with the City and has a budget of $300,000 per year. He said if the District had to pull away from the City, they could operate approximately ninety days. He said to work on such a reduction, he could not visualize how they could protect the health and welfare of the community.

Student Sasway said that he and other students were distressed. People are playing games with the future of students. He said education was too important to be used as a negotiating point.

The School Board commented that it had adopted a resolution in opposition to the Jarvis-Gann Initiative and suggested that the Council join the Board in a similar action.

The City Manager suggested rather than a resolution that Council instruct staff to prepare a meaningful analysis based on priorities showing those programs that will be curtailed, or eliminated completely. That this be prepared in the form of a letter and made public.

The Council and Board discussed the possibility of a public forum to hear Citizens' attitudes on the initiative and that the Council and Board members answer questions. The City Manager said a joint meeting could be scheduled for that purpose to allow staff to field questions, provided it is carried out according to law.

Mayor Rappaport felt that the City was not prepared at this time. At a later date when the City has moved ahead on the budget, priorities will have to be acted on during budget sessions.

ADJOURNMENT:

At 9:35 P.M., upon motion of Cmn. McClellan, seconded by Cmn. Tracy, the meeting adjourned to Monday, April 10, 1978, at 7:00 P.M., at 150 Escondido Avenue. The motion carried unanimously.

ATTEST:

_____

Jean Brooks O'Brien, City Clerk
City of Vista, California

_____

Bernard Rappaport, Mayor

REPRESENTATIVES TO THE ENCINA JOINT ADVISORY COMMITTEE....." was read by title. Director Tracy moved to adopt Resolution No. 78-20 naming Director Dan Carr to the Joint Advisory Committee. The motion was seconded by Director von Haden and carried unanimously.

70-47- Coastal Development Permit No. A-15-76 - Approving Upgrading and expansion of wastewater treatment plant from primary to secondary treatment.

The Manager said the Coastal Commission has issued a permit to allow work to proceed at Encina subject to certain conditions as listed on Page 2 of the permit. Since Vista Sanitation District is the lead Agency, it is necessary for the Chairman to be authorized by the Board to receipt the permit and return it to the Coastal Commission. He explained that the EIR had been approved by the Board and the other Agencies. The next step will be approval of the plans and specifications and the fiscal report which should be ready for approval of the Board at the next regular meeting. At that time Step 2, the design work, can proceed.

Director Carr moved that the Board authorize the Chairman to execute the permit. The motion was seconded by Director McClellan and carried unanimously.

63- Resolution requesting that the City of Carlsbad adopt an ordinance establishing rules and regulations for the discharge of septic tank and chemical toilet wastes at the Encina Water Pollution Control Facility.

RESOLUTION NO. 78-21. ".....A RESOLUTION OF THE VISTA SANITATION DISTRICT REQUESTING THAT THE CITY OF CARLSBAD ADOPT AN ORDINANCE ESTABLISHING RULES AND REGULATIONS FOR THE DISCHARGE OF SEPTIC TANK AND CHEMICAL TOILET WASTES AT THE ENCINA WATER POLLUTION CONTROL FACILITY.. ....." Director Tracy moved to adopt Resolution No. 78-21. The motion was seconded by Director McClellan and carried unanimously.

WRITTEN COMMUNICATIONS:

27-58- Letter from San Diego County Board of Supervisors requesting comments on establishment of a Blue Ribbon Commission to review Proposition 13 to provide voters with an impartial perspective of the initiative.

Director Tracy said, since the Board of Supervisors is requesting comments on the Jarvis-Gann Initiative, he would suggest that the minutes of the adjourned regular meeting of the City Council meeting jointly with the Board of Trustees of the Vista Unified School District, immediately following this meeting, be forwarded to the Board of Supervisors for inspection.

By common consent of the Board, this matter was referred to the Vista City Council meeting jointly with the Board of Trustees of the Vista Unified School District.

ADJOURNMENT:

At 7:55 P.M., upon motion of Director McClellan, seconded by Director Carr, the meeting adjourned. Motion carried unanimously.

Jean Brooks O'Brien, Clerk of the
Board of Directors of the
Vista Sanitation District

APPROVED:_____

U.C. BERKELEY LIBRARIES
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